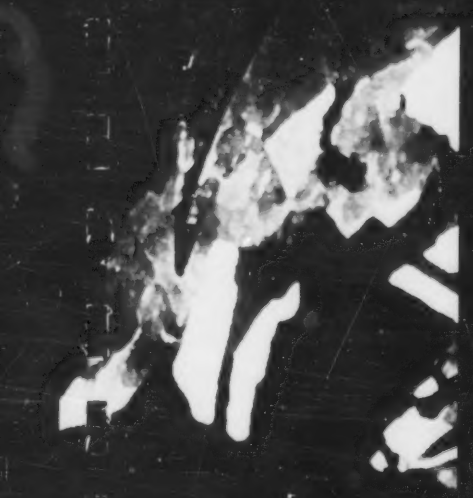
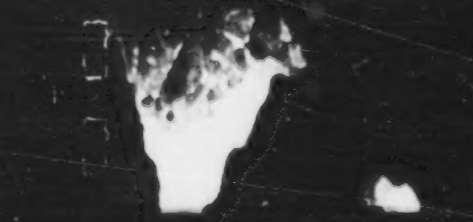


Evaluation of the Sound Recording Development Program

Final Report

Corporate Review Branch

April 2000



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Department of Canadian Heritage

EVALUATION OF THE SOUND RECORDING DEVELOPMENT PROGRAM (SRDP/PADES)

Final Report

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ACRONYMS

ADISQ	Association québécoise de l'industrie du disque, du spectacle et de la vidéo
BCCMA	British Columbia Country Music Association
CAAMA	Canadian Association of Advancement in Music and the Arts
CAC	Conseil des Arts du Canada
CCMA	Canadian Country Music Association
CIRPA	Canadian Independent Record Production Association
DBA	Direct Board Approval
FACTOR	The Foundation to Assist Canadian Talent on Record
FCCF	Fédération culturelle canadienne-française
FMC	Fondation FACTOR /MusicAction /CANADA
IFPI	International Federation of the Phonographic Industry
MPC	Ministère du Patrimoine Canada (ou *«Patrimoine Canadien»*)
MWG	Music West Group Inc.
SAC	Songwriters Association of Canada
SPACQ	Société Professionnelle des Auteurs et des Compositeurs du Québec
SRIA	Saskatchewan Recording Indust. Association
IER	Industrie de l'enregistrement sonore
Cos.	Companies

PRESENTATION OF THE REPORT

1. OBJECT OF THE EVALUATION

The Sound Recording Development Program (SRDP) was implemented more than twelve years ago (1986). The present evaluation study aims at answering the following questions according to the terms of the mandate:

(i) Results / Impacts

What are the effects of the support provided through the program on the Canadian sound recording industry (including sales, employment, infrastructure, and the vitality of independent Canadian companies)?

What are the effects of the support provided through the program on the quality and availability of Canadian music products, taking into account radio and television exposure and retail sales in Canada and abroad?

Does the present allocation of financial assistance to different types of music and regional communities contribute to reaching the objectives of the program?

(ii) Administrative Effectiveness / Efficiency

Is the administration of the program suited to its objectives? Are services provided in the most efficient way and, if not, what more efficient alternative options could be considered?

Are the types of instruments (loans, contributions) and the levels of assistance provided through the SRDP suitable and sufficient to reach the program's objectives? What other sources of financing could be considered?

Were the recommendations of the 1990-91 evaluation exercise introduced?

How could different sources of statistical information (CRTC, Soundscan, Broadcast Data System, Statistics Canada) be used for this evaluation and to periodically supply the Department with pertinent information and measures of the SRDP's impact?

(iii) Pertinence of the Program

To what extent are the objectives and mandate of the SRDP still pertinent to present governmental priorities, the mandate of the Department of Canadian Heritage, and the structure, conditions, and context (including globalization and new technologies) of the Canadian and international sound recording industry?

Where do future needs for support stand? Is it possible that the industry will eventually no longer need the program?

How do the SRDP and provincial programs complement each other?

In other words, it aims at:

- determining to what extent the structure of the SRDP met the target objectives for long-term results (impacts);
- evaluating to what extent the program was effective in view of the public resources mobilized and the results obtained in terms of impact (long-term results);
- determining to what extent the program was managed efficiently in view of the mobilized input and the obtained output (direct results for beneficiaries);
- identifying the factors that influenced the results positively or negatively (impacts, effectiveness, efficiency), as well as those that could be related to the appropriateness of resources, strategies, and forms and methods of intervention;
- evaluating the pertinence and appropriateness of the program overall and in its different components, in view of the context and sector-based stakes at the beginning of the new millennium, federal policies, lessons learned from the past experience of the program, and intervention options that could be considered.

2. EVALUATION METHODOLOGY

The evaluation study consists in gathering, organizing, and analyzing, on a retrospective basis, pertinent information about the program and the Canadian sound recording industry that it is meant to influence in accordance with its objectives. This study draws its inspiration from a method of conceiving and representing a program, which is its methodological framework (refer to the report "Cadrage analytique et plan de collecte", November 1998). This framework structures information about the program by distinguishing between: *its aims* (vocation, objectives), *its input* (resources and financial and human capacities, structure, organization), *its activities, the output* expected and resulting from these activities (beneficiary results), and *the effects and impacts* expected and obtained in the medium and long term regarding reach and achievement of objectives.

The study was based on a wide review of existing documentation about the program and the sector. The available sector-based statistics were used thoroughly. It also had recourse to a series of in-person and telephone interviews with firms, associations, and institutions across Canada representing the variety of stakeholders in the sector.

Furthermore, the study required specific work to compile the appropriate databases for the program's activities and Canadian successes. This work was carried out with the precious collaboration of FACTOR, MusicAction, ADISQ, and The Record.

Finally, a postal survey of producers and labels was undertaken in order to better document, over the program's history, aspects of risk and business consolidation (in particular at the financial level).

The general methodology of the present evaluation was defined in two documents: *"Cadrage analytique et plan de collecte"* (November 1998) and *"Instruments for Data Gathering and Analysis"* (December 1998). A series of documents elaborated during the study detailed and completed some of its aspects (definition of reference terms and data formats expected from FACTOR, MusicAction, ADISQ, The Record, and methodologies of the survey with firms and group analyses).

3. ORGANIZATION OF THE REPORT

The present report is divided into six sections:

- *Section A* is a composite presentation of the SRDP (orientations and components, organizational framework, budgetary quantum, etc.);
- *Section B* focuses on the SRDP's objectives and the context of its set-up;
- the assistance profile is analyzed in detail in *Section C*, defining the "output" of the program's different components (i.e. the portrait of assistance distribution according to the type of activity supported, beneficiary type, musical type, regional distribution, etc.);
- *Section D* is dedicated to the presentation of observations and analyses concerning the organizational framework and the management of the SRDP, including the aspects related to the revenue and expenses profile, administrative costs, and instrumental management;
- the results concerning the impacts of the SRDP in terms of the objectives reached since its set-up are discussed in *Section E*;
- *Section F* summarizes the main observations and results of the retrospective evaluation analysis of the SRDP and presents the recommendations made by Etude Economique Conseil (EEC Canada)[1].

[1] The Executive Summary of this SRDP Evaluation study are presented in a separate document.

A. GENERAL PRESENTATION OF THE SRDP

A.1. OBJECTIVES AND GENERAL CRITERIA

The general objectives and complementary parameters of the SRDP are presented in Frames A.1 and A.2 below.

Frame A.1.: General Objectives

▸ **to contribute to the improvement of the access that Canadians have – *in terms of quantity and quality* – to Canadian content sound recordings,** **and to the popularity of Canadian artists and Canadian content music products;**
▸ **to contribute to the development and strengthening of the Canadian sound recording industry.**

Frame A.2.: Complementary Parameters

▸ Variety: contribute to the development of genres in terms of different **types of music**, including **specialized music** with less commercial intent or potential;
▸ Languages and regions: contribution to this development in its **regional dimensions** and **English and French language** sound recording productions.

A.2. STRUCTURE OF THE PROGRAM PER COMPONENT:

Table A.1.: Structure of the Program Per Component

INITIAL AND PAST COMPONENTS		PRESENT COMPONENTS since 1997-98
Production Support		Production Support
I. Sound Recordings;	1986-1997	**1.Audio and Video Production;**
II. Videos;	1986-1997	
III. Syndicated Radio Programs;	1986-1997	
Marketing Support		Marketing Support
IV. International Touring;	1986-1997	**2. Marketing and Touring** (national and international);
VI. International Marketing;	1993-1997	
Specialized Music Support		Specialized Music Support
V. Specialized Music Production;	since 1986	**4. Specialized Music Production;**
VIII. Specialized Music Distribution;	since 1986	**5. Specialized Music Distribution;**
Other Components		Others
VII. Business Development;	since 1986	**3. Business Development;**
		6. Support for the Development of Federal Policies.

Table A.2.: Characterization of Components and Budgetary Structure

COMPONENT	LEVEL OF INTERV. /TYPES TARG. CLIENTELE	APPROACH	MARKET VOCATION / TYPE OF MUSIC	SHARE OF TOTAL ANNUAL BUDGET	
				1986-97[1]	1997-99
1. Audio and video production	Support at "micro" level: record companies, producers, artist-producers, composer-songwriters, publishers	Assistance per "project" on a "product" basis (album)	Commercial vocation; variety of musical genres with established commercial potential;	64%	38%
2. Marketing and touring				17%	45%
3. Business development	Support at "meso" level: professional associations, support institutions;	Dev. of capacities, instruments, and events with wide reach and public interest	Sector-based/industrial development	6%	5%
4. Production of specialized music	Support at "micro" level: - record companies - producers - artist-producers	"Album /project" basis	Presently limited commercial potential: contemp.-type classic, experimental jazz, electro-acoust., ethno. historical	5%	6%
5. Distribution of specialized music				3%	2%
6. Support for the development of federal policies	"Macro / meso" sector-based level: professional associations	Activities with structured reach / public interest (sect.-based studies, information systems, etc.)	Sector-based /industrial development	(0%)	4%

[1] The total of the percentages does not equal 100% because originally the MPC received $250,000 per year to run the SRDP. Afterwards, the program's management costs were shared by all components of the SRDP.

A.3. SRDP BUDGET:

Table A.3.: Evolution of the SRDP's Annual Budget and Total Budget, 1986-87 to 1999-2000[2]

1986 1987	1987 1988	1988 1989	1989 1990	1990 1991	1991 1992	1992 1993	1993 1994	1994 1995	1995 1996	1996 1997	1997 1998	1998 1999	1999 2000
$5 million / year							$4.3 M	$4.45 million /year			$9.45 million /year		
$81 million													

2 These are the amounts of the contribution made by Canadian Heritage; they do not include the additional private revenues of MusicAction and FACTOR (see Section D.3) and the complementary budget mobilized by the Canada Council for the Arts for the "Production of Specialized Music" component.

A.4. ORGANIZATIONAL AND MANAGEMENT FRAMEWORK

Table A.4.: Management Organisms Per Component (1986-87 to 1999-2000)

1986-87 to 1992-93	1993-94 to 1996-97	1997-98 to 1999-2000
DEPARTMENT OF CANADIAN HERITAGE 6% ▸ *Business development* ▸ *Distribution of specialized music*	**DEPARTMENT OF CANADIAN HERITAGE**	**DEPARTMENT OF CANADIAN HERITAGE 4%** ▸ Support for dev. of fed. policies
FMC 81% **(FACTOR-60% / MUSICACTION-40%)** ▸ Sound recordings ▸ Videos ▸ Radio programs ▸ International touring	**FMC 95%** **(FACTOR-60% / MUSICACTION-40%)** ▸ *Business development* ▸ Sound recordings ▸ Videos ▸ Radio programs ▸ Foreign touring ▸ International marketing ▸ *Distribution of specialized music*	**FMC 90%** **(FACTOR-60% / MUSICACTION-40%)** ▸ Business development ▸ Audio and video production ▸ Marketing and touring ▸ Distribution of specialized music
CANADA COUNCIL FOR THE ARTS 8% ▸ Production of specialized music	**CANADA COUNCIL FOR THE ARTS 5%** ▸ Production of specialized music	**CANADA COUNCIL FOR THE ARTS 6%** ▸ Production of specialized music

Table A.5.: FMC Characteristics

Status	Non-profit organization
Vocation	National sponsorship organism devoted to contributing to the development of the sound recording industry;
Constituents	**FACTOR (1982)** Non-profit organization 60% of MPC contribution to FMC **MUSICACTION (1985)** Non-profit organization 40% of MPC contribution MPC to FMC
Boards of Directors	According to the contribution agreements established between FMC and the MPC -the C.A. of FMC and its constituents must be made up of representatives that come from the various sectors of the sound recording, video, and radio broadcasting industries with a dominating role given to representatives of the sound recording industry (majority market) (1986); -the sound recording industry includes (without being limited to): *record companies and producers, video producers, music publishers, artists (performers), musicians, composer-songwriters, managers, and promoters (1989, 1991, 1993, 1997), distributors, professional associations in the industry (1997);* -fair and reasonable FMC French Canadian participation at the CA;
Contract Relation with the Department of Heritage	Contribution agreements between the Department and FMC: *September 1986, March 1989, October 1991, October 1993, March 1997*
Sources of Financing	FMC: Government of Canada (MPC) SRDP Contribution **FACTOR:** Contribution received from FMC (60%) Sponsors (Radio broadcasters) Loan reimbursements Subscriptions **MUSICACTION** Contribution received from FMC (40%) Sponsors (Radio broadcasters) Loan reimbursements

A.5. PROGRAM SUMMARY:

Objectives	Purpose: cultural development of Canadian cultural heritage; Goal: international influence of Canadian music and Canadians' access to it; Objective: industrial development
Approach/ Targets	Support the production and marketing of sound recordings with Canadian content in Canada and abroad by intervening mainly with producers and record companies in the Canadian independent sector; main support base per project/album;
Duration	Established 1986 / 13th year
Budget	Approximately $5 million/year for the first 11 years, and $10 million/year for the period 1997-98 to 1999-2000, with the increase being channelled mainly towards support for market releases and marketing, i.e. a total contribution of about $81 million over 14 years;
Instruments Used	Loans, participatory loans, direct contributions
Administrative Context	Through representatives of the independent sector of the Canadian sound recording industry (FMC / FACTOR and MUSICACTION), the private sector manages components which represent about 9/10ths of the total budget; program conception and types of instruments in each of the components managed by FMC are a matter for FMC and its constituents. The public sector manages two of the six components: the Canada Council for the production of specialized music, and Canadian Heritage for support in the development of federal policies.

B. OBJECTIVES AND CONTEXT OF THE SRDP SET-UP

The objectives indicate "how" and "in what way" the program must contribute to the evolution of the sound recording industry to better serve the public interest of Canadians. Due to their generality and the time that has passed since they were established, the objectives of the SRDP might appear trivial and obvious. It is, however, useful to examine them because they are a point of reference for different evaluation questions.

The consideration of objectives is a part of several key questions a program evaluation must answer: Were the program's objectives met, and to what extent did the program actually contribute to this? Do the program's objectives still appear well-founded and pertinent now and for the coming years? Thus, objectives are an important element of reference for an evaluation study.

During the first evaluation study of the SRDP (1990-91), it was found that the program's objectives were *"relatively vague and general"*, which is why they were not examined and why the achievement of its objectives was not evaluated. In this case, the evaluation report referred to the document submitted to the Cabinet (1986), which indicated that the object of the SRDP was to *"strengthen the private sector's capacity to produce and market quality sound recordings, videos, and radio programs in both French and English in Canada and abroad."* Notably, the evaluation report mentioned that *"the term 'strengthen' remains too general"*.

However, it would be better for defining and comprehending the SRDP's general objectives to reconsider the conception and set-up of the SRDP in light of the preliminary work done.

The set-up of the SRDP in 1986 came under the most general framework of the policy to encourage the development and strengthening of Canadian cultural industries promoted by the Canadian government. According to this policy, the existence of Canadian cultural industries capable of being self-sufficient and competitive on the national and international markets is necessary in order to provide the Canadian public with better access to cultural products with Canadian content, and at the same time make Canadian culture known and ensure its success elsewhere in the world.

Since 1971, AM and FM radio stations have been obliged to respect minimum regulation quotas of 30% Canadian content for the music they broadcast. Regardless of the effects of this regulation, the relatively little importance that Canadian artists and products with Canadian content had in the production, distribution, and sales of sound recordings in Canada at the beginning of the 1980's was still worrying. Furthermore, the fast evolution of technology gave rise to new stakes and challenges.

In this context, the government of Canada started a consultation process for the development of initiatives in the radio and sound recording domain. In 1984-1985, "MusicAction Group", made up of industry representatives, conducted an exercise to identify the critical constraints and stakes in the development of the sound recording industry.

Financing, particularly access to bank financing and venture capital, topped the list of worries and priorities. Suggestions made to remove this constraint included:

- *persuading radio broadcasters to co-operate more with FACTOR;*
- *setting up governmental incentives for private investments;*
- *having a strategy to encourage private investments;*
- *approaching and educating venture capital institutions and the banking industry;*
- *working towards revising rights for public production by radio broadcasters;*
- *imposing a levy on blank cassettes;*
- *recycling the federal sales tax collected from sound recordings in an investment pool or eliminating this tax altogether;*
- *applying a special postal rate for sound recordings.*

The other main constraints that were identified in this workgroup report concerned:

- *the difficulty of investing at the desired level in promotion and marketing matters;*
- *the government's attitude towards the industry, particularly in terms of the role it is expected to play in helping with the financial problem;*
- *the insufficient amount of music with Canadian content being programmed on the radio (a problem that a strengthening of relations with radio broadcasters should straighten out);*
- *the lack of support that Canadian sound recordings get from retail sellers;*
- *the weaknesses in human resources qualifications at the different links in the record chain (i.e. the need for training);*
- *videos which are costly and still badly served by an emerging video industry which is narrow and inexperienced;*

- *the lack of value perceived by consumers (the need for an awareness campaign at schools, for example);*
- *the lack of a star system which recognizes Canadian artists/productions;*
- *the impact of foreign media;*
- *the lack of research and data about the sector.*

In a work document from July 1985, the Ministry of Communications gave the following diagnosis:

> *"During the last decade, the number of independent record companies increased markedly, from a very small number in 1970 to more than 130 in 1981. Nevertheless, in its present form the industry is dominated by a few very big multinational firms that produce the majority of successes on the market and handle most of the distribution for Canadian companies. Having to count on such a small number of big companies makes the independent sector vulnerable to changes in corporate policies as well as reverses of fortune (e.g. the unexpected closing of a factory or the decision not to distribute products from another company). While acknowledging the importance of the role that multinationals play in internal as well as foreign markets, it must be admitted that the future of the Canadian record industry depends on our independent companies simply because they depend essentially on Canadian artists to stay in business."*

The fragility of Canadian record companies, 47% of them showing losses after taxes in 1983, was instanced in the document. It emphasized the need for these companies *"to find new strategies and other resources to prosper [due to] the increase in production and marketing costs and the uncertainty of revenues for each sound recording"*.

It highlighted the economic scope of the sound recording and performance industry in terms of market size and employment. Considering the fact that listening to recorded music was the second favourite type of cultural entertainment in Canada and that sound recording was the most important cultural medium for young people, it therefore mentioned the cultural importance of *"making sure that Canadian recorded music is available to Canadians"*.

This ministerial document from July 1985 examined the fact that *"lately, the decline in the production of Canadian recordings diminished the perspectives that radio could offer our artists"*, emphasizing also that *"airwave saturation with existing Canadian recordings caused a certain negative attitude of the public towards Canadian artists and Canadian radio."*

Frame B.1 below presents some characteristic indicators of the situation in 1986-87, providing additional information which justifies the concerns.

Frame B.1.: Characteristic Indicators of the Situation in 1986-87

Characteristic Indicators of the Situation in 1986-87[3]

- Products with Canadian content represented about 15% of the new sound recordings released on the market and only 10% of total sales in this industry in Canada. In terms of the positioning of products with Canadian content, this situation was close to the one observed in cinema[4] and it was even more uncomfortable than that of Canadian books (about 25% to 30%). It was the same for the two major linguistic segments in the Canadian sound recording industry.

- Foreign-controlled companies made about 80% of total sales in sound recording in Canada. Their sales were concentrated at the level of subsidiaries of the handful of "majors"; dominant multinational groups in the sound recording industry on a world-wide scale (regarding market share both in distribution and production).

- Canadian-controlled companies, which formed an essential part of the "independent sector" (not including the majors), produced three quarters of recordings with Canadian content (74%) and made 57% of total sales of these recordings. The difference between the average sales per sound recording with Canadian content for these companies and for those under foreign control doubled ($70,000 / $147,000). The vast majority of the hundred or so Canadian-controlled companies were small or very small. From year to year, this group of companies found itself on the border of profitability while foreign-controlled companies made profits of approximately 10% before taxes.

- The situation did not appear to have evolved significantly since the beginning of the 1980's. There were not any really tangible signs of the development of a favourable dynamic to recover the position of sound recordings with Canadian content and to strengthen the Canadian-controlled segment in the Canadian sound recording industry.

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3 The indicators presented are the results of compilations made by EEC Canada from Statistics Canada data.

4 In 1986-87, Canadian films represented 5% of total revenues for film distribution in Canada, and the share for video was 8% (Statistics Canada, Catalogue 87-204, Cultural Statistics, Film and Video 1990-91).

The proposed initiatives mainly concerned:

(i) measures to encourage the production of sound recordings and radio programs
(ii) the development of the sound recording industry
(iii) fiscal instruments
(iv) specialized music
(v) international marketing assistance
(vi) videos
(vii) the competitiveness of radio and sound recording industries, and
(viii) organisms that serve the industry.

With respect to these different initiatives and the more specific objectives associated with them, the following issues were considered:

- **for "measures of encouragement to produce sound recordings and radio programs":**

  - the reduction in the number of sound recordings with Canadian content released on the market;
  - the relevance of the FACTOR/CTL initiative as a support fund and the significance of widening this assistance formula to include financing of French-language sound recordings;
  - the possibility of the state participating financially in these initiatives, and envisaging providing federal funds to encourage the production of 150 to 175 musical recording projects;
  - the expected significant increase, as a result of this assistance, in the quality and quantity of sound recordings with Canadian content accessible to radio broadcasters, and the offering of new prospects to Canadian artists;
  - a contribution to the development of radio programs to complement the existing programming was also considered by the initiative;

- **for the "development of the sound recording industry ":**

  - the major problem of the lack of loan capital (due to the reluctance of financial institutions when facing high risk) and actual capital (because of the small size and lack of commercial maturity of Canadian companies which cannot strengthen their long-term viability or give concrete expression to their assets);
  - the consideration of establishing a fund to meet the financial needs of the Canadian sound recording industry, particularly production companies

(funds that can be accessible through the intermediary of federal and provincial institutions);
- the fund should allow new loan capital and actual capital to be generated substantially each year;
- the fund could help 15 to 20 record companies to reach financial maturity;
- thanks to the support obtained, the main investors and financial institutions should acquire concrete experience with Canadian record companies, thus allowing the establishment of long-term relations;

▸ **for fiscal instruments:**

- the absence of a fiscal instrument to encourage investors to assist the radio and sound recording industries was emphasized by some;
- the pertinence of fiscal instruments such as equity tax credits and for depreciation allowances was suggested;

▸ **for "specialized music":**

- the need to increase the number of sound recordings of classical music, jazz, experimental music, and folk music (markets that represent only 9% of sales in Canada);
- financing and production difficulties for specialized music composers and musicians (difficulties in finding interested companies); problems with access to the distribution system;
- to address this situation, an annual contribution to Canadian sound recording companies was suggested, to encourage them to produce and distribute classical music and other types of specialized music in Canada;

▸ **for "international marketing support":**

- the importance of international visibility in contributing to the growth of the Canadian recording market was highlighted;
- the high cost of access to foreign markets, combined with the lack of funds to finance foreign touring, led some people to ask for state support through loans, guarantees or direct assistance for companies;

▸ **for "videos":**

- the emerging video industry and its indispensable character as a promotional and marketing tool in Canada and abroad;
- the high costs of videos from the viewpoint of the companies' capacities,

costs which cannot be recovered except through the sales of sound recordings: $30,000 to $60,000 per video;
- praiseworthy VideoFACT initiatives for the financing of videos, managed by CIRPA;
- the state could provide assistance that Canadian record companies need during this transition period: federal capital could support the production of about fifty videos per year, which would greatly increase the promotion of Canadian artists.

▸ **for "the competitiveness of radio and sound recording industries":**

- according to case studies, several Canadian sound recording companies have weak financial management and little knowledge of requirements for obtaining funds from loan institutions, as well as inappropriate marketing strategies;
- importance of professional training;
- welcome comments and observations about the pertinence of expanding the Ministry of Employment and Immigration programs, and the interfirm comparison program of the Ministry of Regional Industrial Expansion to the sound recording and radio broadcasting industries, which would help them improve their skills and acquire necessary training in commercial and financial management.

▸ **for "the associations serving the industry":**

- the absence of a permanent governmental program to help Canadian associations that serve the radio and sound recording industries;
- the majority of research and development work is carried out by parent companies of the majors;
- to have better representation, Canadian-owned companies established CIRPA, ADISQ, the Canadian Academy of Recording Arts and Sciences, the Canadian Songwriters' Association, the SPACQ (composer-songwriters of Quebec), the Canadian Music Centre, and the ADISQ/CIRPA Foundation;
- these organisms suffer from a lack of financing; it was proposed that the state should put a sum of money at their disposal every year which would support their related research activities and those aimed at increasing Canadian presence in their industries.

The July 1985 working document of the Department of Communications already contained the essential elements for formulating objectives and for arguments about the program's validity. Excepting only "fiscal measures", the proposed initiatives are found

more or less directly in the component structure of the SRDP. The objectives associated with them here are also explained in a more or less similar way in the 1986 contribution agreement between the government and the FMC (except for the references to the number of sound recordings and videos, etc.).

The SRDP was approved at the end of April 1986 with the following objectives:

(i) to encourage businesses to take advantage of new technologies and development perspectives;
(ii) to give talented Canadians more chances to use their creativity and to express it through increased access to audiences; and
(iii) to facilitate the achievement of the cultural and social objectives of radio broadcasting and the economic, cultural, and social objectives of the government.

General Objectives

As defined(in the absence of a clearly pre-defined framework of results) by the Department's July 1985 working document and the September 1986 contribution agreement, the general objectives of the SRDP are to contribute to:

(i) the improvement of Canadian's access to sound recordings with Canadian content and the influence of Canadian artists and musical products abroad through increased availability, quality, and distributionof sound recordings with Canadiancontentin Canada and abroad; and

(ii) the development and strengthening of the Canadian sound recording industry.

These general objectives are related. *The strengthening and development of the Canadian sound recording industry* (the"sector-based development" objective) appears to be understood as a condition and *a means of improving Canadians' access to sound recordings with Canadian content and the influence of Canadian artists and musical products abroad* (the "cultural" objective).

The strengthening of the Canadian sound recording industry is aimed at the independent segment of companies under Canadian control. Within this segment, it is particularly aimed at record companies(document 07/85), although its coverage is more extensive: in the 1993 contribution agreement, a section concerning "definitions" (newly introduced)

indicates that the sound recording industry "includes record companies, record producers, video producers, publishers, performers, musicians, composer-songwriters, managers, and promoters".

Special Parameters

As the first contribution agreement (09/86) indicates, the SRDP must also meet several objectives:

- to meet its objectives with respect to *the two major linguistic segments* of the Canadian sound recording industry, i.e. the English language and French language segments (which present market conditions and aspects of organization and industrial structure that are relatively specific and differentiated);

- to take *the regional dimension* into consideration;

- to uphold an industrial development perspective which explicitly demands that significant attention be paid to concerns about *market and prospect potential* (national and international), while also ensuring the development of sound recordings with *lower immediate commercial potential*, which can contribute to wider expression of and access to Canadian culture in its depth and variety;

- to favour Canadians' access to music with Canadian content and the development of the Canadian sound recording industry by ensuring the *diversity of types of music*.

Objectives and Results Indicators

The general objectives essentially express the major long-term impacts expected; that is to say, a significant and lasting reinforcement of the Canadian sound recording industry (which will then be more competitive and less fragile), and a lasting improvement of Canadians' access to music with Canadian content. More specific objectives concern different components according to the fields of activity (production, marketing, etc.). These essentially concern products rather than the strengthening of companies' individual and collective capacities.

In neither case were these objectives conveyed in the form of indicators of results or expected production, nor were they the object of systematic exercises after the event to measure the effects of the program. In the contribution agreements, the accent is on the production of statistics and analyses of the specific allocation parameters mentioned

above, such as the diversity in the types of music or the regional dimension[5].

Comprehension of the SRDP Objectives

The objective to "contribute to the increase and improvement of availability, quality, and distribution of sound recordings with Canadian content in Canada and abroad" is a direct response to the following factors:

- the small share of products with Canadian content in all sound recordings released in Canada (the objective here being to increase the quantity produced);
- the low level of production and marketing budgets, with its effect on quality, for the very large majority of these Canadian products compared to those for the mass of sound recordings with foreign content, promoted by the "majors";
- the low exposure these Canadian products had through different distribution vehicles (the objective here being to widen and intensify distribution); and
- their very small share of total sales.

The objective to "contribute to the development and strengthening of the Canadian sound recording industry" is a response to the observed narrowness and weakness facing the "majors", of the "independent" segment under Canadian control, which constituted the main production platform for sound recordings with Canadian content within the Canadian sound recording industry.

As mentioned above, the first evaluation study (1990-1991) considered the SRDP objectives to be "relatively vague and general", particularly in terms of the definition of the SRDP's goal to encourage *"the strengthening of the private sector's capacity to produce and market quality sound recordings, videos, and radio programs in French and English in Canada and abroad"*. Indeed, nowhere in the project's statement and agreements is it indicated to what degree the SRDP's objectives were expected to be achieved. The SRDP's objectives could have been assessed as being "too general" and "too vague" because they were not expressed in terms of expected results.

For instance, this is the case for *"commercial music" vs. "non-commercial music"* (or music with lower commercial potential, such as specialized music, e:perimental music, etc.), where there is an opposition which interferes somewhat with other problems such

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5 The requested and presented statistics in annual reports were not sufficiently standardized and precise.

as the more industrial or cultural orientation, or the more immediate or innovative orientation. This could also be the case for the *"sector-based reinforcement"* (considering the companies' capacities) vs. the objective *"to give talented Canadians more chances to use their creativity and make it known by having better access to audiences "*.

Furthermore, the question of the "relatively general and vague" character of the objectives arises in **the integration of "new musical trends" and the development of the "self-production" phenomenon**. According to some people, self-production is considered a means for Canadian artists to give themselves more chances to use and display their creativity, while others feel that the development of the self-production is likely to hinder the "strengthening" of the Canadian sound recording production industry, and even damage it. In this way, the vagueness of the objectives of strengthening and structuring leads to divergent, if not contradictory, interpretations.

However, if there actually is a problem, it is not necessarily with the definition of the program's general objectives. It is in fact very clear that the notion of strengthening or structuring of the industry includes the constitution, development, and consolidation of a core of Canadian record companies, larger and more stable than has been the case since the beginning of the program. Furthermore, at the time the program was set up, the phenomenon of self-production had not yet manifested itself as it has today: we can therefore understand why it was not part of what was understood as "industry structuring" at the time. Does its development call for a clarification regarding the program's objectives? Such a clarification would state the general objective which would be explicit enough to determine whether self-production contributes to the structuring of the industry and/or the development of opportunities to express Canadian talent, and if so, from what angle and to what extent.

In 1986, the expression "strengthening of the Canadian sound recording industry" could be used while aiming at the strengthening of record companies in particular because the program was not limited to this target, and it was devoted to having a significant impact at the sector-based level. The SRDP's general objectives can be thought of as diagnoses of the sound recording industry's problems when the SRDP was first set up, suitable at the time. Being so general, they were able to encompass a vision of much more specific forms of intervention, which were subsequently developed through the component structure of the program, with each component having its own objectives and budget.

Faced with the complexity and variety of the components and structuring parameters of the sound recording industry, it is, of course, necessary to have objectives which are as clear as possible in order to avoid confusion and the inefficient scattering of resources and effort. It is also important to preserve enough generality to permit adjustments in

management, with the desired flexibility and within the framework of a pre-established program. This would also allow adaptation to changes and needs resulting from both the progressive results of its own operation and sector-based intrinsic evolution (regarding market conditions and technology). In this sense, generality is both desirable and useful.

The general objectives of the SRDP are adequate enough, with more particular issues being more a matter for (and being taken care of by) other framework elements; that is to say, the structuring of the program into different components, each with more specific objectives and with a budget reflecting its priorities. In other words, it is less a question of determining general objectives than it is a question of concentrating on the identification and justification of program components, since they allow the program to deal with more specific problems. One such problem would be the integration of new trends and the emergence of networking forms and new market releases, caused by the present phenomenon of self-production.

Furthermore, this type of problem, not just involving self-production, occurs within the segment of producers and record companies. An industrial development program which widens the scope of intervention in different segments of the industry and different types of companies is usually faced with the conflict between the need to strengthen the core of bigger and more dynamic companies and the need to facilitate the emergence and the graduation of not so well-established operators.

C. ASSISTANCE PROFILE

This part of the report describes the general results of the program's execution in terms of "output".

C.1. REQUESTS RECEIVED AND ACCEPTED (FMC)

Requests Received

From 1986-87 to 1997-98, FMC received and examined close to 24,000 requests, 72% of which were for FACTOR and 28% for MusicAction. In order to quickly assess the structuring effects of the SRDP according to its different programs, FMC programs supported the production of approximately 2,300 albums, which gives a ratio of about 10 requests for each sound recording released on the market with the support of the SRDP.

The number of requests received depends on the potential client base that benefits from and is targeted by the different SRDP programs, the appropriateness of these programs with respect to their needs, and the capacity of FACTOR/MusicAction's management to make these programs known to the targeted clientele. For instance, the total number of annual requests received can vary as a result of changes to the programs' structure or to eligibility and conditions for a particular SRDP program. This is one of the indicators of the program's level of activity. In order to have a proper "request" indicator, which allows an assessment of the targeted clientele's response to the programs offered, the number of requests received should be related to the potential number of requests.

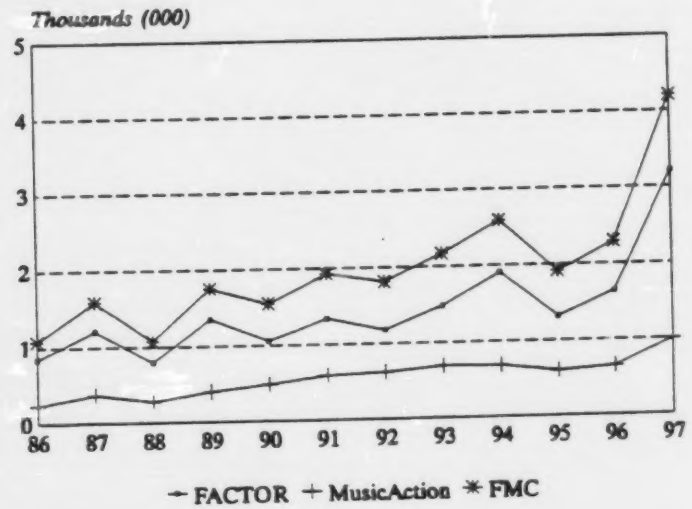
As illustrated in Figure C.1, the number of requests received by FMC and its constituents has tended to grow over time. After the first three years of operation, there was a moderate yet relatively steady increase in requests for the following six years. Following a significant decline in 1995-96, the number of requests partly recovered the next year and increased greatly in 1997-98 as a result of a major increase in the program's total budget.

The increase in the number of requests received may be assumed to correspond to several factors such as:

- an increase in the number of companies,
- an increase in the number of sections and programs,
- a better adaptation of programs to the needs of targeted beneficiaries,
- an improvement of the program's visibility, and
- an improvement of its access.

Figure C.1

Number of Applications Received



Requests Accepted

Overall, from 1986-87 to 1997-98, FMC accepted 38.3% of the requests received. However, the acceptance rate increased from an average level of 32.4% during the 4 first years to 40.9% for the following 8-year period.

As shown in Figure C.2, both FACTOR and MusicAction demonstrate this growth in acceptance rate. However, MusicAction has always maintained an overall acceptance

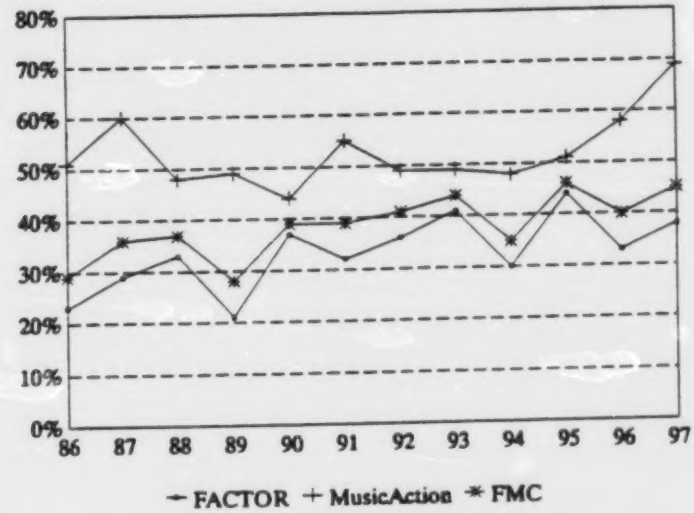
rate significantly higher than FACTOR. In the past, FACTOR has accepted about a third of requests received (33.1%), whereas MusicAction has accepted more than half of them (52.7%).

In accordance with the long-term trend towards growth in requests received and the overall acceptance rate, the number of accepted requests, i.e. the projects that benefit from SRDP assistance, has increased significantly.

Aside from 1986-87 (start-up) and 1997-98 (budget increase), the number of accepted projects went from an average level of approximately 562 for the 5 years from 1987-88 to 1991-92, to 874 for the 5 following years; an increase of 55.5%. This increase in the number of projects accepted was markedly higher for FACTOR (+58.4%) than for MusicAction (+51%). Incidentally, about 38% of requests accepted by FMC from 1986-87 to 1997-98 are attributable to MusicAction.

Figure C.2

Applications Acceptance Rate



C.2. DISTRIBUTION OF ASSISTANCE ACCORDING TO SUPPORTED ACTIVITY TYPES AND PROGRAMS (FMC)

The contribution agreements specifying the objectives and the amounts allocated to the different components administered by FMC indicate the main orientations of the SRDP towards supported activity types. This section, which profiles the distribution of assistance according to the different programs offered, allows a better understanding of the nature and degree of assistance for different types of supported activities. It should also be mentioned that the effective assistance and its structure can differ noticeably from the amounts specified in the contribution agreements due to the private complementary revenues of executive agencies, management practices, and the ability to reach the targeted clientele.

The structure of the SRDP according to its constituent parts establishes the fact that the assistance is used principally for the direct support of operational activities (the production of an album or a video, a tour, a promotional activity, etc.) rather than, for instance, the setting-up and development of capacities (human, technological, organizational, or managerial). It focussed the majority of its support on production activities during the first 10 years of the program, with marketing activities and tours taking the lead from 1997-98.

MusicAction

The group of components related to the production of albums represents 78% of accepted projects and 82% of the resources granted by MusicAction for all programs throughout the period 1986-87 to 1997-98. The "demo grant" and "composer-songwriter" components cover more than half (57%) of all projects in "sound recording", yet they represent only 9.1% of the total amount of assistance (see Table C.1). The 9/10ths of assistance that is channelled to the latter stages of the sector's activity (creation, demo, production) was devoted to album and video production support, which corresponds to approximately 3/4 of the assistance for all programs combined (these results include 1997-98, when the budget for the "marketing and touring" component increased).

Table C.2. shows the evolution of the number of projects for each program on an annual basis for MusicAction.

Table C.1: MusicAction
Projects and Amount of Assistance Per Program, 1986-87 to 1997-98

Projects	Number of Projects	% of Total	Amount (in Dollars)	% of Total
Grant (demo)	938	27%	1,232,225	5%
Albums	782	22%	15,329,523	59%
Videos	388	11%	3,837,303	15%
Composer/Songwriter	604	17%	690,912	3%
Syndicated Radio	28	1%	81,797	0%
International Touring	151	4%	1,655,093	6%
National Touring	18	1%	209,317	1%
Promotion	359	10%	805,437	3%
National Promotion-Vocal Music	43	1%	652,535	3%
International Promotion-Vocal Music	5	0%	63,600	0%
National Promotion-Non-Vocal Music	33	1%	149,756	1%
International Promotion-Non-Vocal Music	23	1%	128,700	0%
Press Books	82	2%	438,600	2%
Distribution of Specialized Music	9	0%	83,863	0%
Business Development	35	1%	494,052	2%
Total	3,498	100%	25,852,713	100%

Table C.2: Evolution of the Number of Projects Per Program, MusicAction 1986-87 to 1997-98

Year	Demo	Albums	Video	Composer Songwriter	Internatnl Touring	National Touring	Syndic. Radio	Promotion/ Marketing	Business Developmnt	Distrib. Spec. Mus.	Promotion	Total
86-87	47	56	10	0	6	0	0	0	0	0	0	119
87-88	97	86	15	0	15	0	7	0	0	0	0	220
88-89	54	49	20	0	11	0	0	0	0	0	0	134
89-90	89	62	32	0	10	0	2	0	0	0	0	195
90-91	87	58	27	32	9	0	1	0	0	0	0	214
91-92	97	61	62	50	13	0	2	0	0	0	0	285
92-93	97	59	32	106	4	0	2	4	0	0	0	304
93-94	92	60	35	66	13	0	1	57	9	1	0	334
94-95	93	55	34	78	17	0	4	42	6	2	0	331
95-96	64	58	33	74	15	0	3	54	5	2	0	308
96-97	59	83	21	105	9	0	6	82	7	2	0	374
97-98	62	95	67	93	29	18	0	120	8	2	186	680
Total	938	782	388	604	151	18	28	359	35	9	186	3,498

FACTOR

During the period 1986-87 to 1997-98, sound recording production support represented 58.4% of the total assistance granted by FACTOR. The ratio is almost identical to that of MusicAction (59%). Album production assistance was the main FMC support activity. Furthermore, like MusicAction, FACTOR mobilized 15% of its total resources to support video production. Thus, about 3/4 of the total assistance from FACTOR and MusicAction (FMC) was channelled to the production of albums and videos (see Table C.3).

"Upstream" assistance for demo production was comparable to that for album production in the number of projects (1,646 and 1,692 respectively, i.e. 32% and 31% of the total number of projects). However, the total assistance for demos represents only 8.7% of the assistance granted for album production, and 5.1% of the amount of assistance granted by FACTOR for all its programs during the 12 first years of the SRDP (a result comparable to MusicAction's).

"Downstream" assistance for the production of syndicated radio programs was slightly less than $500,000, i.e. 1.3% of the total assistance granted by FACTOR for all its components/programs.

The resources allocated for the marketing of tours (15.8% of the total assistance granted by FACTOR) were almost entirely devoted to international/foreign tours, while support for the marketing of national tours was not very significant until 1997-98.

Support for the distribution of specialized music with less immediate commercial potential, represents 1.1% of the total assistance granted by FACTOR.

The business development component, the only one to have a "meso" rather than a "micro" vocation, assisting the realization of projects with a broader scope (e.g. promotional events of collective interest) or capacity development (e.g. training), remains a rather limited part of the assistance provided by FACTOR (3.3%).

Table C.3: FACTOR
Projects and Amount of Assistance Per Program, 1986-87 to 1997-98

Projects	Number of Projects	% of Total	Amount (in Dollars)	% of Total
Album Production	1,692	32%	21,731,095	58.4%
Demos	1,646	31%	1,888,922	5.1%
Videos	580	11%	5,638,832	15.1%
Syndicated Radio	84	2%	478,911	1.3%
National Showcases/ Touring	131	2%	299,909	0.8%
International Showcases/ Touring	541	10%	3,798,246	10.2%
International Marketing	341	6%	1,254,457	3.4%
Promotion	135	3%	531,337	1.4%
Distribution of Specialized Music	20	0%	396,518	1.1%
Business Development	98	2%	1,215,040	3.3%
Total	5,268	100%	37,233,267	100.0%

Table C.4 : Evolution of the Number of Accepted Projects Per FACTOR Program, 1986-87 to 1997-98

Year	Sound Recordings	Demos	Videos	National Showcases/ Touring	International Showcases/ Touring	Business Develop-ment	International Marketing	Distribution Specialized Music	Promotion	Syndicated Radio Programs	Total
86-97	128	45	23	0	4	0	0	0	0	1	201
87-88	114	85	55	0	18	0	0	0	0	18	290
88-89	43	104	48	0	17	0	0	0	0	9	221
89-90	97	100	57	0	40	0	0	0	0	14	308
90-91	96	136	36	0	19	0	0	0	0	9	296
91-92	132	166	44	0	33	0	0	0	0	2	377
92-93	124	191	54	0	37	0	0	0	0	8	414
93-94	167	224	55	0	67	13	56	2	0	7	591
94-95	194	172	41	0	61	15	54	2	0	5	544
95-96	180	167	53	0	41	15	69	4	0	2	531
96-97	173	122	52	0	54	17	73	5	0	5	501
97-98	244	134	62	131	150	38	89	7	135	4	994
Total	1,692	1,646	580	131	541	98	341	20	135	84	5,268

C.3. BENEFICIARY CATEGORIES

This section demonstrates how SRDP assistance was distributed among the different professional categories of beneficiaries. In this section, the term 'beneficiaries' refers to 'applicants' as defined by FMC, and the term 'beneficiary' thus applies strictly to 'applicants'[6].

MusicAction

As indicated in Table C.5, "artists" and "producers" were direct beneficiaries of almost 8/10ths of the total number of projects supported by MusicAction from 1986-87 to 1997-98 (40% and 38% respectively). These are the categories of beneficiary agents whose numbers increased the most throughout the program (see Table C.6).

The majority of MusicAction's assistance was allocated to "producers" (61%). "Record companies" received 19% of the total assistance, a share slightly larger than that granted to "artists" (notably, to artist-producers). "Artist managers", "music publishers", and "other agents" (associations) shared the other 9% of total MusicAction assistance.

Table C.5: MusicAction
All Programs Combined, 1986-87 to 1997-98

	Artists	Producers	Record Companies	Managers	Music Publish.	Other	Total
Total Projects	1,409	1,346	408	138	81	116	3,498
% of Total	40%	38%	12%	4%	2%	3%	100%
Total Amount	3,012,226	15,786,062	4,885,828	702,821	282,786	1,182,990	25,852,713
% of Total	12%	61%	19%	3%	1%	5%	100%

[6] The assistance granted for a particular application naturally has the capacity to benefit, more or less directly and to varying degrees, several agents in different categories, apart from the direct applicant. Thus, artists involved can be considered beneficiaries of all production assistance, regardless of the category of applicant, since assistance is allocated per album. In this context, it is possible that the applicant is not the main effective assistance beneficiary. This being the case, aside from the fact that it is beyond the scope of the present study to identify, measure and sort out these various beneficiaries, analyzing assistance by category of beneficiary professional based on 'applicants' is significant in and of itself: it indicates unequivocally with whom, how and to what degree the SRDP acts in its contact with the industry, based on simple and direct measurements.

Table C.6: Number of Beneficiaries Per Professional Category, MusicAction 1986-87 to 1997-98

Year	Artists	Producers	Record Companies	Managers	Music Publishers	Other	Total
1986-97	18	20	75	3	3	0	119
1987-88	77	54	58	12	5	14	220
1988-89	32	31	68	2	0	1	134
1989-90	65	60	57	12	1	0	195
1990-91	100	94	5	11	3	1	214
1991-92	122	140	8	9	6	0	285
1992-93	184	81	27	10	2	0	304
1993-94	149	111	32	23	6	13	334
1994-95	178	102	21	12	4	14	331
1995-96	150	103	30	7	7	11	308
1996-97	182	116	21	9	25	21	374
1997-98	152	434	6	28	19	41	680
Total	1,409	1,346	408	138	81	116	3,498

FACTOR

Artists were the direct beneficiaries for about half (50.9%) of the total number of projects accepted by FACTOR during the first 12 years of the SRDP, a higher percentage than that of MusicAction (40%). The difference between the two is even more noticeable in terms of program expenses: artists were the beneficiaries of 29.5% of the total assistance granted by FACTOR ($37.4 million), and only 12% of MusicAction's assistance.

Record companies were FACTOR's main beneficiary group, with 49.5% ($18.4 million) of the total assistance given, a significantly smaller share than that granted by MusicAction to producers and record companies, which was around 80%. Part of the 30% difference between FACTOR and MusicAction in allotments to "producers & labels" can be explained by the additional 17.5% granted to artists by MusicAction. However, the difference is also due to a more diverse distribution of direct assistance to other categories of beneficiaries, such as artists' managers who represent about 11% of FACTOR projects and 9% of its total assistance. FACTOR targets this beneficiary category more than MusicAction (which devoted to it 4% of its projects and 3% of its total assistance).

Among FACTOR's other categories of beneficiaries, producers are the most significant, with close to 5% of the total number of accepted projects and more than 4% of assistance for all projects. Associations received a total amount of assistance that was more or less equivalent, in the order of $1.5 million, while music publishers and distributors received $310,000 and $429,000 respectively.

Table C.7: FACTOR, Number of Projects and Amount of Assistance Per Beneficiary Category (All Programs Combined), 1986-87 to 1997-98

Professional Category	Number of Projects	% of Total	Amount (in Dollars)	% of Total
Record Companies	1,406	26.7%	18,415,312	49.5
Artists	2,679	50.9%	10,995,096	29.5
Managers	602	11.4%	3,315,718	8.9
Associations	92	1.7%	1,450,996	3.9
Producers	249	4.7%	1,655,494	4.4
Music Publishers	131	2.5%	309,619	0.8
Distributors	38	0.7%	428,764	1.2
Syndicated Radio	8	0.2%	73,976	0.2
Studios	10	0.2%	13,507	0.0
Other	53	1.0%	574,785	1.5
Total	5,268	100.0%	37,233,267	100.0

Table C.8: Number of Beneficiaries Per Professional Category, FACTOR 1986-87 to 1997-98

Year	Labels	Artists	Artists' Managers	Associations	Producers	Music Publishers	Distributors	Syndicators	Studios	Other	Total
1986-87	96	66	19	0	15	2	0	0	1	2	201
1987-88	110	98	34	0	38	2	0	1	3	4	290
1988-89	85	89	20	0	21	4	0	0	1	1	221
1989-90	106	109	35	0	48	3	0	4	1	0	308
1990-91	81	145	38	0	23	2	0	1	4	2	296
1991-92	99	181	44	0	28	17	0	0	0	8	377
1992-93	78	236	62	0	26	6	0	0	0	6	414
1993-94	145	312	68	15	26	17	3	0	0	5	591
1994-95	118	310	57	18	6	25	5	0	0	5	544
1995-96	122	281	68	14	4	25	10	0	0	7	531
1996-97	139	268	45	12	6	15	9	2	0	5	501
1997-98	225	584	112	33	8	13	11	0	0	8	994
Total	1,406	2,679	602	92	249	131	38	8	10	53	5,268

C.4. ASSISTANCE PER PROGRAM ACCORDING TO BENEFICIARY TYPE[7] (FMC)

MusicAction

Producers constitute the professional category which has had the most access to the variety of programs offered by MusicAction since it was established. Aside from two programs aimed at specific categories, namely "composer-songwriters" and "distribution of specialized music", producers were one of the two main groups to benefit from the 13 other programs.

In fact, in terms of the percentage of accepted projects as well as the total share of assistance, producers are the main group of beneficiaries in 11 of the 15 components provided by MusicAction (see Tables C.9 and C.10). Their share of assistance dominates for production as well as marketing and touring, especially for the 6 programs created as a result of changes following the establishment of the "marketing and touring" component in 1997-98 (which was expanded for promotion and national tours), and also throughout the whole previous period in terms of assistance for production and international touring.

Along with producers, record companies and artists constitute the two other main categories of beneficiaries of the program, in terms of their share of the total number of projects assisted and the amount of assistance for all the components combined. This is explained mainly by the fact that these three professional categories were the three principal groups of beneficiaries of sound recording production support (97.7% of the total amount) while 59% of the total assistance for all the components combined was channelled for this purpose.

Artists form the main group of beneficiaries for the "demo grant" and "composers-songwriters" components in terms of both their relative share of the total number of accepted projects and the amount of assistance granted. Although they ranked third after producers and record companies in terms of assistance received for album production, artists (as artist-producers) received a total amount of assistance that was greater through production support components than through the two other above-mentioned components that are more specifically aimed at them.

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[7] In this section, the term 'beneficiaries' refers to 'applicants' as defined by FMC, and the term 'beneficiary' thus applies strictly to 'applicants'.

Artists' managers represent a very small share of the total assistance given (3%). Among the various programs to which they had access, "international touring" was their main source of support (39%). Furthermore, managers rank second after record producers as beneficiaries for this component.

For music publishers (who received 1% of the total MusicAction assistance), access to the SRDP was mainly through "promotion support" (abroad) (45% of their total assistance).

Businesses (producers) were the beneficiaries of less than 10% of accepted projects and 5% of the total resources within the framework of the "business development" program. The beneficiaries of this program were essentially organizations at an intermediate level, institutions, or associations. This corresponds to an orientation that may appear to be more specific than the one put forward in the program's description.

Table C.9: Number of Projects Per Program According to Professional Category of Beneficiaries, MusicAction, 1986-87 to 1997-98

Program	Artists	Producers	Record Companies	Managers	Publishers	Other	Total	% of Total
Grant (demo)	660	151	59	33	10	5	938	27%
Albums	97	477	190	9	3	6	782	22%
Videos	16	298	62	8	2	2	388	11%
Composers / Songwriters	603	0	0	0	0	1	604	17%
International Touring	10	80	20	30	5	6	151	4%
National Touring	0	12	0	2	0	4	18	1%
Syndicated Radio	0	22	0	1	0	5	28	1%
Promotion	1	131	74	53	60	40	359	10%
Business Development	0	4	0	2	1	28	35	1%
Distribution of Specialized Music	0	0	0	0	0	9	9	0%
National Promotion-Vocal Music	0	32	3	0	0	8	43	1%
International Promotion-Vocal Music	0	4	0	0	0	1	5	0%
National Promotion-Non-Vocal Music	2	30	0	0	0	1	33	1%
International Promotion-Non-Vocal Music	0	23	0	0	0	0	23	1%
Press Books	0	82	0	0	0	0	82	2%
Total	1,409	1,348	406	136	81	116	3,498	100%
% of Professional Categories	40%	38%	12%	4%	2%	3%	100%	

Table C.10: Amount of Assistance Per Professional Category of Beneficiaries According to Programs, MusicAction, 1986-87 to 1997-98

Program	Artists	Producers	Record Companies	Managers	Publishers	Others	Total	% of Total
Grant (demo)	690,997	320,769	132,647	60,569	14,791	12,452	1,232,225	5%
Albums	1,409,078	9,974,181	3,594,870	180,813	34,593	135,988	15,329,523	59%
Videos	121,785	2,860,447	716,726	85,954	22,391	30,000	3,837,303	15%
Composers / Songwriters	688,662	0	0	0	0	2,250	690,912	3%
International Touring	77,777	913,264	241,146	275,147	83,870	63,890	1,655,093	6%
National Touring	0	151,172	0	20,108	0	38,040	209,317	1%
Syndicated Radio	0	60,797	0	500	0	20,500	81,797	0%
Promotion	6,226	235,340	144,564	77,732	127,141	214,434	805,437	3%
Business Development	0	28,000	0	2,000	0	466,052	494,052	2%
Distribution of Specialized Music	0	0	0	0	0	83,863	83,863	0%
National Promotion-Vocal Music	0	503,233	55,876	0	0	93,427	652,535	3%
International Promotion-Vocal Music	0	56,505	0	0	0	7,095	63,600	0%
National Promotion-Non-Vocal Music	17,700	117,056	0	0	0	15,000	149,756	1%
International Promotion-Non-Vocal Music	0	128,700	0	0	0	0	128,700	0%
Press Books	0	438,600	0	0	0	0	438,600	2%
Total	3,012,226	15,786,062	4,885,828	702,821	282,786	1,182,990	25,852,713	100%
% of Professional Categories	12%	61%	19%	3%	1%	5%	100%	

FACTOR

Throughout the first 12 years of the program, record companies and artists were the main beneficiaries of FACTOR support programs for the production of sound recordings and videos.

For the production of sound recordings, these two categories of beneficiaries received 57% and 32% of the total assistance respectively ($21.7 million), with record companies representing 35% of the total number of projects and artists representing 48%. The average assistance per sound recording production project was $20,753 for record companies and $8,455 for artists.

Managers and record producers were respectively beneficiaries of 8% and 7% of the total sound recording support projects (1,692) as well as 6% and 4% of the total amount of assistance, their combined average assistance per project being $8,887. Music publishers and various agents classified in the "other" category were marginal beneficiaries of FACTOR support programs for sound recording production (representing 1% of projects and less than 1% each of the amount of assistance).

The assistance provided through the video production component was distributed in a markedly different way. It was concentrated more on record companies, beneficiaries of 77% of the total number of projects and 79% of the total resources that were channelled by FACTOR. Artists rank second as beneficiaries of video production support, with about 14% of the total number of projects and the total amount granted by FACTOR for this component. The average amount of assistance given to the two types of beneficiaries per video project is comparable ($9,926 for record companies and $9,841 for artists). Furthermore, artists' managers, with 2% of projects and 3% of the total amount, and producers, with 6% of projects and 4% of the total amount, also had access to this program.

Sound and video recording production components were the main FACTOR/SRDP "windows" for record companies: more than 9/10ths (91.3% - $16.8 million) of the total amount of resources that they received from FACTOR from 1986-87 to 1997-98 came from these two components. Artists also received a large part of the total resources granted to them by FACTOR through support programs for sound recording and video production.

However, it was concentrated to a lesser extent than with record companies (70% compared to 79%). Together, components related to marketing made up a source of

assistance that was relatively bigger for artists than for record companies (with 15.5% and 8.6% of the total assistance received by each group), while the total amounts received within the framework of these programs are comparable (about $1.7 million for artists and $1.6 million for record companies. Close to 80% of the assistance received by artists for marketing support comes from international showcases/touring support (about $1.4 million, or over twice the amount of assistance received by record companies).

Furthermore, demo production support represented a noteworthy source of the total amount of assistance received by artists from FACTOR (14.1%, or about $1.5 million). About 51% of projects that benefit artists are attributable to this demo grant program, with an average assistance of $1,145 per project.

Together, these results suggest that FACTOR, while channelling its assistance mainly towards record companies, also aimed a large part at artists, for production support as well as for marketing, with a significant yet relatively modest portion for those who are trying to launch a career (demo grants).

Among the other groups to benefit from FACTOR's support, the main one – in terms of both the number of projects and the amount of assistance received – was artists' managers. About 21% of projects that this category of agents benefited from and 36.8% of the total amount received came under the sound recording component. However, in terms of both the number of projects as well as the amount of assistance, the main window of support through which managers had access to FACTOR during the first 12 years of the SRDP was support for international showcases/touring. Artists' managers are the main group of beneficiaries for international touring support, ahead of artists[8].

Distributors were the only beneficiaries of the "distribution of specialized music" program. Associations were the main beneficiaries of the "business development" program with about 80% of the total number of accepted projects and the total amount of resources granted by FACTOR for this component. Producers and radio broadcasters are the two main groups to benefit from the "syndicated radio" program.

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[8] 'Artists' managers', however, are not necessarily the main effective beneficiaries of this assistance because they act on behalf of their client artists. In this case, the assistance can also support activities that are within the responsibilities of an 'artist's manager'. However, it is certain in all of these cases that it is the agent who looks after the application for assistance and presents it, and it is significant within the context of this international tour assistance program that he plays a preponderant role compared to the other programs.

Table C.11: Number of Projects Per Program According to Professional Category of Beneficiaries, FACTOR 1986-87 to 1997-98

Program	Record Companies	Artists	Managers	Producers	Publishers	Syndicated Radio	Studios	Distributors	Associations	Other	Total
Sound Recordings	596	818	129	113	17	0	0	0	0	19	1,692
Videos	447	83	13	35	0	0	0	0	0	2	580
Demos	25	1,358	154	21	73	0	9	0	0	6	1,646
International Showcases/Touring	79	254	187	6	5	0	0	0	1	9	541
National Showcases/Touring	23	78	28	0	0	0	0	0	0	2	131
Marketing/Promotion	46	88	1	0	0	0	0	0	0	0	135
International Marketing	190	0	88	0	36	0	0	18	9	0	341
Distr.Spec. Music	0	0	0	0	0	0	0	20	0	0	20
Business Development	0	0	1	5	0	1	0	0	79	12	98
Syndicated Radio	0	0	1	69	0	7	1	0	3	3	84
Total	1,406	2,679	602	249	131	8	10	36	92	53	5,268

Table C.12: Amount of Assistance Per Professional Category of Beneficiaries According to Program, FACTOR, 1986-87 to 1997-98

Program	Record Companies	Artists	Managers	Directors	Publishers	Syndic. Radio	Studios	Distributors	Associations	Other	Total $
Recordings	12,368,587	6,916,106	1,219,576	930,984	113,177	0	0	0	0	182,685	21,731,095
Videos	4,437,127	816,822	156,550	206,875	0	0	0	0	0	19,458	5,638,832
Demos	31,141	1,554,557	192,901	24,534	67,556	0	11,653	0	0	6,578	1,888,922
International Showcases/Touring	663,113	1,363,137	1,514,549	70,650	36,763	0	0	0	2,002	147,832	3,798,246
National Showcases/Touring	76,251	151,062	70,659	0	0	0	0	0	0	1,937	299,909
Marketing/Promotion	335,925	193,412	2,000	0	0	0	0	0	0	0	531,337
International Marketing	503,188	0	157,710	0	92,121	0	0	32,246	469,192	0	1,254,457
Distr. Spec. Music	0	0	0	0	0	0	0	396,518	0	0	396,518
Business Development	0	0	657	33,743	0	7,791	0	0	973,933	198,916	1,215,040
Syndicated Radio	0	0	1,116	386,508	0	66,185	1,854	0	5,869	17,379	478,911
Total $	18,415,312	10,995,096	3,315,718	1,655,494	309,619	73,976	13,507	428,764	1,450,996	574,785	37,233,267

Production Programs and Types of Beneficiaries

The different components within the production support section are dedicated to intervening at different levels in the sector and to reaching different types of beneficiary agents.

From (i) MusicAction and FACTOR demo programs to (ii) the MusicAction participatory loan program with jury recommendations and to the loan programs for independent artists as well as FACTOR loans, to (iii) MusicAction and FACTOR direct approval programs by the boards of directors[9], which themselves have multi-level structures, there is a concomitant gradation between:

(a) requirements related to the eligibility conditions and to the levels of maximum assistance, and

(b) the strata and types of agents targeted within the sector (1st stratum: beginning artists; 2nd stratum: new and small record companies and producers as well as unconfirmed artists; 3rd stratum: the most well-established record companies, producers, artists (for MusicAction), and labels (for FACTOR) that have demonstrated a certain success to attain DBA and that are presumptively able to maintain a certain performance level).

Thus, the assistance profile, according to these different programs within the sound recording production component, indicates the stratum and type of beneficiary towards which the administrators actually directed their interventions.

Table C.13 provides information about the number of requests received and projects accepted according to these different programs for MusicAction and FACTOR during the periods 1988-1998 and 1994-1998 respectively. The demo grant (FMC) programs and the independent artist loan program (FACTOR) represent close to 3/4 of the total number of requests received by MusicAction and FACTOR for the production programs considered. However, their average acceptance rate is approximately 27%.

The volume of requests received for MusicAction and FACTOR loan programs with jury recommendations aimed at the intermediate stratum of the sector's agents is approximately one fourth of that of the three preceding programs which intervene at the level of the wide base of beginning and unestablished artists. The average acceptance rate for these loan programs with direct jury approval is approximately 34%.

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[9] Also called "Direct Board Approval" (DBA).

The average acceptance rate of direct approval programs that are aimed at more well-established companies is about 83%. The requests received and accepted on account of direct approval represent a distinctly greater share of the total number of requests received and accepted by MusicAction than by FACTOR.

For 1997-98, Tables C.14 and C.15 are a complementary indication of the amount and distribution of assistance between these production support programs. The MusicAction and FACTOR demo grant programs that demand a small amount of assistance per project ($2,600 and $900 respectively) represent only a very small part of the total amount of assistance (7% and 4% respectively). The average amount of assistance per project for the FACTOR loan program for independent artists is about $5,700 and this program represents a large part (29%) of the total amount of assistance for these production programs. At the intermediate level of the targeted clientele, MusicAction and FACTOR mobilized an almost equal proportion (37% and 39%) of their total assistance for loan programs with jury recommendations; furthermore, the average amount of assistance per project is also the same ($18,000). A substantial majority of the total assistance from MusicAction for production programs is focused on direct approval (57%), while for FACTOR, the share that is allocated to DBA projects is smaller (28%). Regarding DBA, FACTOR is oriented more towards labels while MusicAction widely integrates recognized artists, with accredited companies benefiting from 24% of the total assistance for production programs taken into account.

Table C.13 Requests, Number of Projects, and Acceptance Rates for Production Support Programs, MusicAction (1988-98) and FACTOR (1994-98)

PROGRAMS	Requests Received	Requests Accepted	Acceptance Rate
MUSICACTION	1988-1998		
Demos	3,036	807	27%
Jury Recommendation	793	308	39%
Direct Approval	427	364	85%
FACTOR	1993-94 to 1997-98		
Profess.Demo.Award	2,351	710	30%
Independent Artists Record.Loan	2,029	482	24%
Factor Loan	1,120	341	30%
Direct Board Approval	194	151	78%

Table C.14: Number of Requests Received/Accepted and the Amount of Assistance, Production Support Programs, MusicAction and FACTOR, 1997-98

MUSICACTION					FACTOR				
PROGRAMS	# of Requests Received	# of Requests Accepted	Total Amount $	Average Amount $	# of Req Received	# of Requests Accepted	Total Assistance $	Average Amount $	PROGRAMS
Demos	254	49	127,000	2,592	424	143	129,171	903	Profess.Demo.Award
					776	172	979,678	5,696	Independent Artists Record.Loan
Jury Recommendation	89	39	691,628	17,734	262	70	1,309,028	18,700	Factor Loan
Direct Approval	59	52	1,071,492	20,606	53	39	929,662	23,837	Direct Board Approval
- *recognized artists*	16	15	461,722	30,781					
- *recognized producers*	8	6	165,109	27,518					
- *accredited companies*	35	31	444,661	14,344					
Total	402	140	1,890,120		1,515		3,347,539		

Table C.15: Distribution of Assistance Among Production Support Programs, MusicAction and FACTOR, 1997-98

MUSICACTION			FACTOR		
PROGRAMS	Share of Total Req. Accepted	Share of Total Amount	Share of Total Req. Accepted	Share of Total Amount	PROGRAMS
Demos	35%	7%	34%	4%	Profess.Demo.Award
			41%	29%	Independent Artists Record.Loan
Jury Recommendation	28%	37%	17%	39%	Factor Loan
Direct Approval	37%	57%	9%	28%	Direct Board Approval
- recognized artists	11%	24%			
- recognized producers	4%	9%			
- accredited companies	22%	24%			
Total	100%	100%	100%	100%	100%

FACTOR: DBA Beneficiary Companies (Direct Board Approval)

Among the population of FMC/SRDP beneficiaries, some were occasional, some benefited from relatively steady support since the first year of receiving assistance, and some had irregular access. Some became beneficiaries recently while others were among the first generations of beneficiaries. Some beneficiaries in production "graduated" in their access to the programs offered while others had their status degraded (because they no longer attained average performances for reimbursement in direct approval). The assistance profile according to beneficiaries, as it permits a definition of how FMC administrators intervened with the different agents of the sector, can ultimately be made clear by understanding the different dimensions that characterize the population of beneficiaries and its evolution.

In this sense, Figure 3 illustrates the way in which the population of FACTOR's DBA label-beneficiaries evolved over the years and how this assistance was structured. It provides a profile of the evolution of this group of companies by following their entries and exits, and the extent to which they benefited regularly or irregularly from SRDP/FACTOR support.

The number of beneficiary companies remained relatively constant from 1987 to 1992 (10, 9, 9, 13, 12, 10), after which it increased progressively over the following 6 years (14, 15, 15, 19, 24, 25).

Among the 31 companies involved, about 1/3 of them are part of the first group of beneficiaries (which entered in 1987). Of these 10 companies, 3 continuously benefited from the support of FACTOR's programs, 6 others benefited from support that was relatively less regular and have always been among the beneficiaries over the last years, and only one company is no longer part of the group of beneficiaries (after 4 years).

The entry of the other 21 companies which later benefited from DBA status was relatively steady, at a rate of one to three new companies per year. Most of these companies (16) were still DBA beneficiaries in 1998 and 10 of them continue to keep their "DBA status".

Overall, the total amount of assistance for "DBA" companies was approximately $8.2 million over the 12 years considered, which represents about 1/4 of the total public contribution allocated to FACTOR for a group that represents a significant proportion of the industry.

The distribution of the total amount of assistance among DBA companies since the beginning of the SRDP shows a noteworthy concentration: 10% of beneficiaries received 40% of the total assistance for this group and 30% of beneficiaries received 70% of the total assistance (see Table C.16). A good part of this concentration benefits companies that were able to enjoy long and regular DBA access. The disparity in annual assistance per company per beneficiary year also explains this to a certain extent.

Another noteworthy disparity concerns the average assistance per year per DBA beneficiary company. The first fifth of the companies that benefited from the highest average assistance per year received an average of $88,000 the years that they received support ; that is to say, twice the average assistance received by the group making up the second fifth. For the three other fifths, the average annual assistance was $31,000, $24,000, and $17,000 (see Table C.17).

These results tend to indicate that while the length of intervention was sustained for certain companies, FACTOR was able to reach and progressively widen (mainly during the second half of the duration of the SRDP) the base of DBA companies.

Figure C.3: FACTOR, Temporal Profile of DBA Beneficiary Companies

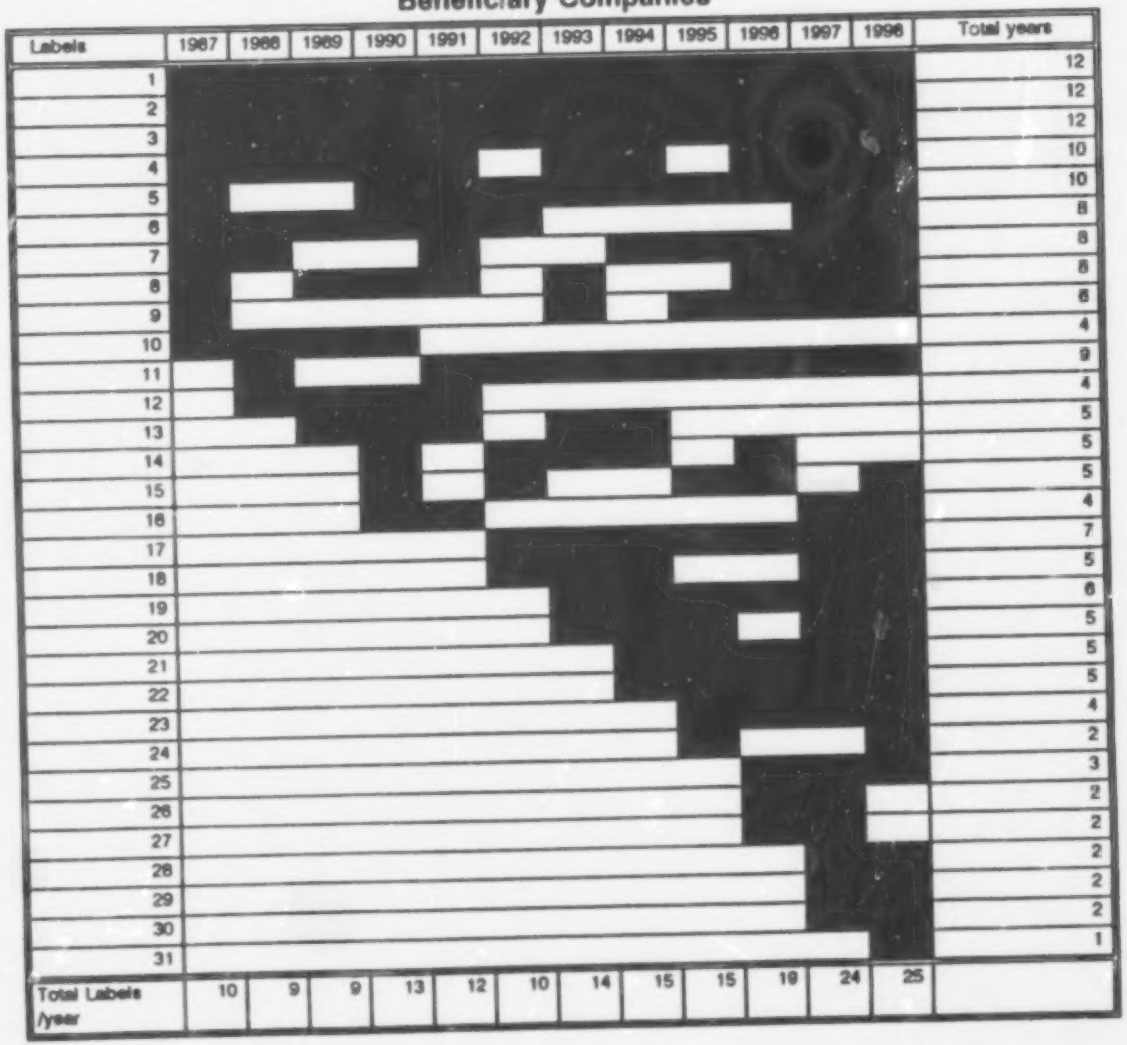

Table C.16: FACTOR, Distribution of Assistance Among DBA Companies 1986-87 to 1997-98

Tenth	Share of Assistance	Share Accrued
1	40.5%	40.5%
2	17.3%	57.8%
3	12.3%	70.2%
4	8.0%	78.2%
5	6.0%	84.2%
6	4.6%	88.8%
7	4.0%	92.8%
8	3.2%	96.0%
9	2.6%	98.6%
10	1.4%	100.0%

Table C.17: FACTOR, Average Assistance Per Year of DBA Beneficiary Companies, 1986-87 to 1997-98

Fifth	Average Assistance Per Company
1	$88,443
2	$44,374
3	$31,336
4	$24,006
5	$17,120

C.5. REGIONAL PROFILE (FMC)

From 1986-87 to 1997-98, 7/10ths of the requests received came from Ontario (37.7%) and from Quebec (33.4%), the rest of the requests coming from British Columbia and the other provinces. By comparing these results and sector-based indicators (for two base years), Table C.16 below shows that the regional distribution of requests corresponds on the whole quite well to the regional distribution of the independent segment of the Canadian sound recording industry.

This fact suggests that through FMC, the SRDP's diffusion, on the whole, allowed it to reach operators in the sector throughout Canada in accordance with their geographical distribution and activity distribution.

The regional distribution of accepted requests differs markedly from the distribution of requests received (see Table C.18). With one third of the requests received, Quebec represents 45.1% of the accepted requests, which is explained by the fact that the acceptance rate is higher for MusicAction than for FACTOR. Furthermore, Canada, outside Ontario, Quebec, and British Columbia, represents about 7% of accepted requests for every 15% of requests received.

For MusicAction, the large majority of requests received (i.e. more than 92%) come from Quebec. The other requests come more or less equally from the eastern provinces, the western provinces, and Ontario, with about 2% each. With MusicAction's budget increase, the number of requests received increased from 653 in 1996-97 to 994 in 1997-98, i.e. a 52% increase. However, this increase in received requests is almost entirely due to agents residing in Quebec. This may suggest that the communication and distribution of information concerning changes and new components being offered could have been weak outside Quebec during that year.

Tables C.19 to C.21 respectively present the requests received, the requests accepted, and the proportion of requests accepted by FACTOR according to regions, on an annual basis for the period 1986-87 to 1997-98. Tables C.22 to C.24 present the same retrospective data for MusicAction.

Table C.18: Regional Distribution of Requests Received by FMC

Province	Share of the Total Requests Received 1986-87 to 1997-98	Share of the Total Requests Accepted 1986-87 to 1997-98	Share of the Total Number of Sound Recording Companies Under Canadian Control[3]		Share of the Number of Sound Recordings with Canadian Content Released by Companies Under Canadian Control (1)		Share of Sound Recording Sales with Canadian Content Released by Companies Under Canadian Control (1)	
			1990-91	1993-94	1990-91	1993-94	1990-91	1993-94
QUEBEC	33.4%	45.1%	28.1%	38.8%	54.7%	49.7%	39.7%	57.5%
ONTARIO	37.7%	36.3%	46.1%	31.6%	29.6%	23.9%	49.5%	33.8%
BRITISH COLUMBIA	13.7%	11.8%	12.0%	11.2%	2.7%	8.0%	7.8%	3.9%
OTHER PROVINCES[4]	15.2%	6.8%	13.8%	18.4%	13.0%	18.4%	2.9%	4.8%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[3] The information presented is an approximation, with the information for Ontario having been adjusted for the independent sector by subtracting from it the whole segment under foreign control in Canada.

[4] The requests received and accepted by MusicAction and classified by MusicAction in the broad region called "west" have been included in the "other" category.

Table C.19: Regional Requests Received by FACTOR (all components) 1986-87 to 1997-98

Year	Atlantic	Quebec	Ontario	Prairies	British Columbia	Territories	Total
1986-1987	12	122	515	61	133	1	844
1987-1988	59	73	677	163	239	0	1,211
1988-1989	48	65	459	94	123	1	790
1989-1990	85	117	643	153	351	0	1,349
1990-1991	57	91	573	102	232	0	1,055
1991-1992	164	176	615	210	169	1	1,335
1992-1993	90	133	648	149	164	4	1,188
1993-1994	94	152	783	182	263	2	1,476
1994-1995	153	184	972	225	359	7	1,900
1995-1996	139	121	652	127	269	2	1,310
1996-1997	193	147	792	159	342	1	1,634
1997-1998	329	251	1,597	395	626	8	3,206
Total	1,423	1,632	8,926	2,020	3,270	27	17,298

Table C.20: Requests Accepted by FACTOR Per Region (all components) 1986-87 to 1997-98

Year	Atlantic	Quebec	Ontario	Prairies	British Columbia	Territories	Total
1986-1987	3	23	121	14	31	0	192
1987-1988	15	33	217	32	56	0	353
1988-1989	14	27	147	23	50	0	261
1989-1990	16	27	161	25	59	0	288
1990-1991	26	31	225	29	80	0	391
1991-1992	56	52	205	74	38	0	425
1992-1993	37	44	247	51	50	0	429
1993-1994	44	69	312	66	117	0	608
1994-1995	48	47	318	59	100	2	574
1995-1996	50	47	302	64	114	0	577
1996-1997	62	31	278	50	112	0	533
1997-1998	128	82	598	178	219	0	1,205
Total	499	513	3,131	665	1,026	2	5,836

Table C.21: Regional Acceptance Rate of Requests Received by FACTOR (all components), 1986-87 to 1997-98

Year	Atlantic	Quebec	Ontario	Prairies	British Columbia	Territories	Total
1986-1987	25%	19%	23%	23%	23%	0%	23%
1987-1988	25%	45%	32%	20%	23%	N.A.	29%
1988-1989	29%	42%	32%	24%	41%	0%	33%
1989-1990	19%	23%	25%	16%	17%	N.A.	21%
1990-1991	46%	34%	39%	28%	34%	N.A.	37%
1991-1992	34%	30%	33%	35%	22%	0%	32%
1992-1993	41%	33%	38%	34%	30%	0%	36%
1993-1994	47%	45%	40%	36%	44%	0%	41%
1994-1995	31%	26%	33%	26%	28%	29%	30%
1995-1996	36%	39%	46%	50%	42%	0%	44%
1996-1997	32%	21%	35%	31%	33%	0%	33%
1997-1998	39%	33%	37%	45%	35%	0%	38%
Total	35%	31%	35%	33%	31%	7%	34%

Table C.22: Requests Received by MusicAction Per Region (all components), 1986-87 to 1997-98

Year	East	Quebec	Ontario	West	Total
1986-87	0	231	3	1	235
1987-88	3	361	3	4	371
1988-89	3	271	5	0	279
1989-90	3	388	6	4	401
1990-91	3	479	2	2	486
1991-92	3	584	1	1	589
1992-93	9	601	5	3	618
1993-94	14	652	3	16	685
1994-95	12	642	15	14	683
1995-96	9	572	9	10	600
1996-97	20	608	13	12	653
1997-98	9	958	12	15	994
Total	88	6,347	77	82	6,594

Economic Study Council Compilation, 1999

Table C.23: Requests Accepted by MusicAction Per Region (all components), 1986-87 to 1997-98

Year	East	Quebec	Ontario	West	Total
1986-87	0	116	2	1	119
1987-88	0	219	1	1	221
1988-89	1	132	1	0	134
1989-90	2	191	2	2	197
1990-91	1	212	1	1	215
1991-92	2	323	0	1	326
1992-93	3	297	2	2	304
1993-94	6	313	2	13	334
1994-95	5	307	6	11	329
1995-96	3	291	6	8	308
1996-97	11	349	7	9	376
1997-98	7	671	4	6	688
Total	41	3,421	34	55	3,551

Table C.24: Acceptance Rate of Requests Received by MusicAction Per Region, (all components), 1986-87 to 1997-98

Year	East	Quebec	Ontario	West	Total
1986-87	na	50	67	100	51
1987-88	0	61	33	25	60
1988-89	33	49	20	na	48
1989-90	67	49	33	50	49
1990-91	33	44	50	50	44
1991-92	67	55	0	100	55
1992-93	33	49	40	67	49
1993-94	43	48	67	81	49
1994-95	42	48	40	79	48
1995-96	33	51	67	80	51
1996-97	55	57	54	75	58
1997-98	78	70	33	40	69
Total	47	54	44	67	54

C.6. PROFILE ACCORDING TO TYPE OF MUSIC (FMC)

Requests Received and Albums Released

Available statistics do not lend themselves well to precise comparisons (due to the different classifications used by the sources), but they nevertheless show that the distribution of requests received by FACTOR and MusicAction according to types of music tends to correspond to that of the new releases with Canadian content (see Table C.25). While approximately half of the albums released are classified in pop/rock, this type of music represents a slightly bigger share of the total amount of requests received by FMC.

The share of requests submitted to FACTOR in the genre of classical music (1.9%) appears distinctly smaller than the share of the "classical and related" category of albums released on the market. This may reflect the relatively minor position of companies specialized in classical music under Canadian control within the anglophone segment of the industry and within the segment under Canadian control specialized in classical music. Furthermore, classical music represents a markedly bigger share of requests received by MusicAction (4.6%). The latter remains smaller than the share of classical music albums with Canadian content released on the market, but it must be taken into account that this statistical information groups classical music and "related music", which may include experimental or contemporary music (requests for which are addressed to the Canada Council).

Table C.25: Distribution of Market Releases and Requests Received by FACTOR According to Type of Music

TYPE OF MUSIC	Share of the Total of New Albums Released on the Canadian Market		Share of New Albums With Canadian Content and With Canadian Artists Released on the Market		Share of the Total Requests Received by FACTOR 1996-97 / 1997-98		
	1993-94	1995-96	1993-94 (Canadian Content)	1995-96 (Canadian Artists)			
Pop Music Rock	50.3%	49.4%	47.8%	43.8%	57.8%	54.9%	Rock
						2.9%	World Reggae
Classical and Related	19.0%	19.7%	8.2%	11.1%	1.9%		Classical
Jazz	6.1%	9.3%	2.8%	5.9%	4.4%		Jazz
Country and Folk	7.7%	5.8%	15.9%	9.2%	15.4%		Folk/Roots/Blues
Children	3.1%	1.8%	3.3%	2.9%	9.9%	3.1%	Other
Other	13.9%	14.0%	21.8%	27.1%		6.8%	Dance
Total	100.0%	100.0%	100%	100.0%	100%		

Acceptance Rate

Throughout the duration of the program, the acceptance rate of requests received for rock music was markedly lower than that for all the projects as a whole. FACTOR has an acceptance rate of 26% for rock music projects compared to 30% for all projects and types of music. For MusicAction, the acceptance rate for rock music is 51% compared to 54% for all types of music (see Table C.26).

For both FACTOR and MusicAction, the annual acceptance rate for rock music has always been lower than or equal to the overall annual acceptance rate. For MusicAction, the difference between the acceptance rate for rock music and the overall rate tended to increase over the last 5 years: from a differential of -1% in 1993-94, to -4% the following two years, then to -8% in 1995-96, and finally to -11% in 1997-98.

For FACTOR, the "rock" category had the lowest acceptance rate over the whole duration of the program, with the "other", "world-reggae", and "classical" categories benefiting from the highest rates.

For MusicAction, the "other" and "classical" categories had acceptance rates that were distinctly higher than the other categories. Furthermore, the acceptance rate for "new trends" and "instrumental" music is lower than that for "popular" music, except for the last year (1997-98).

Table C.26: Distribution of Requests Received and Acceptance Rate According to Type of Music

FACTOR 1986-87 / 1997-98			MUSICACTION 1986-87 / 1997-98		
Type of Music	Share of Requests Received	Acceptance Rate	Type of Music	Share of Requests Received	Acceptance Rate
Rock	54.9%	26%	Popular	78.8%	51%
Country	10.7%	29%	New Trends	2.5%	47%
Dance	6.8%	28%	Classical	4.6%	77%
Folk/Roots/Blues	15.4%	28%	Instrumental	8.6%	48%
Classical	1.9%	32%	Other	5.7%	92%
Jazz	4.4%	34%			
World/Reggae	2.9%	37%			
Other	3.1%	46%			
Total	100.0%	30%		100.0%	54%

Tables C.27 to C.29 present, respectively, on an annual basis for the period 1986-87 to 1997-98, the number of requests received, requests accepted, and the proportion of requests accepted by FACTOR, according to type of music. Tables C.30 to C.32 present the same retrospective data for MusicAction.

Table C.27: Requests Received by FACTOR (all components), 1986-87 to 1997-98

Year	Rock	Country	Dance	Folk/Roots Blues	Classical	Jazz	World/Reggae	Other	Total
1986-1987	515	69	18	171	18	33	0	30	854
1987-1988	817	117	31	125	23	51	0	45	1,209
1988-1989	586	74	36	41	13	25	0	38	813
1989-1990	895	165	78	84	19	82	0	83	1,406
1990-1991	610	130	79	107	17	45	0	37	1,025
1991-1992	763	151	120	165	14	65	0	50	1,328
1992-1993	621	123	100	187	23	42	40	48	1,184
1993-1994	697	165	140	252	18	55	45	48	1,420
1994-1995	866	222	155	335	31	61	96	41	1,807
1995-1996	602	124	66	227	26	45	72	35	1,197
1996-1997	773	156	101	270	32	67	65	47	1,511
1997-1998	1,562	324	221	643	94	168	166	60	3,238
Total	9,307	1,820	1,145	2,607	328	739	484	532	16,138

Table C.26: Requests Accepted by FACTOR According to Type of Music (all components), 1986-87 to 1997-98

Year	Rock	Country	Dance	Folk/Roots /Blues	Classical	Jazz	World/ Reggae	Other	Total
1986-1987	115	19	1	33	5	13	0	15	201
1987-1988	183	26	10	22	16	17	0	16	290
1988-1989	149	18	11	11	6	13	0	13	221
1989-1990	183	41	15	14	5	24	0	26	308
1990-1991	154	40	23	36	4	21	0	22	300
1991-1992	206	33	43	41	8	25	0	26	382
1992-1993	198	38	46	54	10	21	20	30	417
1993-1994	249	65	40	95	6	24	18	24	521
1994-1995	201	64	47	79	11	21	28	20	471
1995-1996	206	52	21	87	4	17	37	19	443
1996-1997	195	39	22	84	10	17	21	18	406
1997-1998	415	98	46	183	19	38	56	18	873
Total	2,454	533	325	739	104	251	180	247	4,833

Table C.29: Acceptance Rate of Requests Received by FACTOR According to Type of Music (all components), 1986-87 to 1997-98, in %

Year	Rock	Country	Dance	Folk/Roots/Blues	Classical	Jazz	World/Reggae	Other	Total
1986 - 1987	22%	28%	6%	19%	28%	39%		50%	24%
1987 - 1988	22%	22%	32%	18%	70%	33%		36%	24%
1988 - 1989	25%	24%	31%	27%	46%	52%		34%	27%
1989 - 1990	20%	25%	19%	17%	26%	29%		31%	22%
1990 - 1991	25%	31%	29%	34%	24%	47%		59%	29%
1991 - 1992	27%	22%	36%	25%	57%	38%		52%	29%
1992 - 1993	32%	31%	46%	29%	43%	50%	50%	63%	35%
1993 - 1994	36%	39%	29%	38%	33%	44%	40%	50%	37%
1994 - 1995	23%	29%	30%	24%	35%	34%	29%	49%	26%
1995 - 1996	34%	42%	32%	38%	15%	38%	51%	54%	37%
1996 - 1997	25%	25%	22%	31%	31%	25%	32%	38%	27%
1997 - 1998	27%	30%	21%	28%	20%	23%	34%	30%	27%
Total	26%	29%	28%	28%	32%	34%	37%	46%	30%

Table C.30: Requests Received by MusicAction According to Type of Music (all components), 1986-87 to 1997-98

Year	Popular	New Trends	Classical	Instrumental	Other	Total
1986-87	221	0	2	12		235
1987-88	325	0	12	34		371
1988-89	247	0	6	26		279
1989-90	361	0	8	32		401
1990-91	401	0	15	69		485
1991-92	547	0	10	32		589
1992-93	550	0	21	47		618
1993-94	588	11	18	52	16	685
1994-95	530	17	30	63	43	683
1995-96	433	26	23	42	76	600
1996-97	437	44	34	43	95	653
1997-98	556	68	122	99	149	994
Total	5,196	166	301	551	379	6,593

Table C.31: Requests Accepted by MusicAction According to Type of Music (all components), 1986-87 to 1997-98

Year	Popular	New Trends	Classical	Instrumental	Other	Total
1986-87	111	0	1	7		119
1987-88	184	0	8	29		221
1988-89	122	0	4	8		134
1989-90	178	0	3	16		197
1990-91	191	0	6	18		215
1991-92	303	0	10	13		326
1992-93	274	0	12	18		304
1993-94	284	4	15	23	8	334
1994-95	233	9	22	24	41	329
1995-96	204	3	19	19	63	308
1996-97	220	16	31	18	91	376
1997-98	323	46	100	72	147	688
Total	2,627	78	231	265	350	3,551

Table C.32: Acceptance Rate of Requests Received by MusicAction According to Type of Music (all components), 1986-87 to 1997-98, in %

Year	Popular	New Trends	Classical	Instrumental	Other	Total
1986-87	50%		50%	58%		51%
1987-88	57%		67%	85%		60%
1988-89	49%		67%	31%		48%
1989-90	49%		38%	50%		49%
1990-91	48%		40%	26%		44%
1991-92	55%		100%	41%		55%
1992-93	50%		57%	38%		49%
1993-94	48%	36%	83%	44%	50%	49%
1994-95	44%	53%	73%	38%	95%	48%
1995-96	47%	12%	83%	45%	83%	51%
1996-97	50%	36%	91%	42%	96%	58%
1997-98	58%	68%	82%	73%	99%	69%
Total	51%	47%	77%	48%	92%	54%

Amount of Assistance

The results, in terms of requests received and accepted, illustrate that *on the whole*, the practices of the two executive agencies were in accordance with the objective of contributing to musical diversity. The results, in terms of distribution of assistance, confirm this (Table C.33).

Tables C.34 and C.35 provide the amounts and share of contributions made by FACTOR to production programs according to the type of music on an annual basis for the duration of the SRDP.

Table C.33: Contribution Made by FACTOR to Sound Recording Production According to Type of Music (1986-87 to 1997-98)

TYPE OF MUSIC (*)		Amount (Thousands $)	Share
Popular / Rock	(61.2%)	11,972.2	57.0%
Classical	(2.1%)	551.7	2.6%
Jazz	(5.2%)	1,859.9	8.9%
Country and Traditional	(26.3%)	5,542.1	26.4%
Children and Other	(5.1%)	1,064.4	5.1%
Total	(100.0%)	20,990.2	100.0%

Note (*): the numbers in brackets indicate the musical category's share in the projects accepted by FACTOR (all programs combined).

Table C.34: Contributions made by FACTOR (in Thousands of Dollars) for the Production of Sound Recordings Per Musical Category, 1986-87 to 1997-98

Musical Category	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Popular / Rock	1,320.1	1,179.5	825.4	849.4	844.9	1,094.4	900.7	992.0	1,022.2	958.3	806.3	1,068.0	11,972.2
Classical	30.9	61.6	24.4	15.5	103.6	22.9	53.5	32.6	42.3	15.2	70.5	78.8	551.7
Jazz	185.1	192.5	78.7	237.0	184.4	192.6	181.5	146.1	142.1	70.5	57.1	212.3	1,859.9
Country and Traditional	471.2	289.9	91.1	301.1	469.0	264.0	247.1	543.5	696.3	652.5	611.9	904.5	5,542.1
Children and Other	121.4	34.8	50.3	122.2	195.9	84.2	76.7	185.5	72.2	50.3	55.1	35.8	1,084.4
Total	2,128.7	1,758.2	1,069.9	1,525.2	1,797.9	1,658.1	1,439.6	1,879.6	1,975.1	1,747.8	1,690.8	2,319.4	20,990.2

Table C.35: Contributions Made by FACTOR for the Production of Sound Recordings Per Musical Category, in % of the Annual Total, 1986-87 to 1997-98

Musical Category	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	Total
Popular / Rock	62.0%	67.1%	77.1%	55.7%	47.0%	66.0%	62.6%	52.8%	51.8%	54.9%	53.0%	46.0%	57.0%
Classical	1.5%	3.5%	2.3%	1.0%	5.8%	1.4%	3.7%	1.7%	2.1%	0.9%	4.2%	3.4%	2.6%
Jazz	8.7%	10.9%	7.3%	15.5%	10.3%	11.6%	11.2%	7.8%	7.2%	4.0%	3.4%	9.2%	8.9%
Country and Traditional	22.1%	16.5%	8.5%	19.7%	26.1%	15.9%	17.2%	28.9%	35.3%	37.3%	36.2%	39.0%	26.4%
Children and Other	5.7%	2.0%	4.7%	8.0%	10.9%	5.1%	5.3%	9.8%	3.7%	2.9%	3.3%	1.5%	5.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

In the future, it would be useful to establish, justify, and apply a list of musical categories and have reference indicators that would encompass the notion of musical diversity that executive agencies must take into account when allocating resources.

Presently, FACTOR and MusicAction each uses a designation of music styles. These styles serve as management guidelines to differentiate/tailor the conditions for eligibility and assistance to ensure that the assistance is distributed over a variety of styles. In future, since the SRDP action statement asks its managers to take "a variety of styles" into account, it would be useful to:

(i) define objectives per music style, as measurable indicators, in the performance guide;

(ii) detail/specify the parameters (%) that the distribution of assistance among styles should fall within to be in keeping with the idea of variety (notably regards the statistical market indicators and target objectives based on the development potential of the various music styles as defined in the performance guide).

C.7. ASSISTANCE PER PROJECT AND PER ALBUM (FMC)

One aspect of the economic description of activities and assistance provided by the SRDP consists in determining (i) how many albums benefited from production and marketing support, (ii) the level at which they benefited from this support, and (iii) the reach in terms of production and marketing conditions for sound recording and in terms of the independent segment's level of activity.

Production Support

From 1986-1987 to 1997-98, MusicAction supported the production of 784 albums and FACTOR that of 1,480 albums.

The total number of albums that received SRDP/FMC production support, i.e. 2,264, represents more than 1/3 of the albums with Canadian content released on the Canadian market by companies under Canadian control (SRDP production support includes the "production of specialized music" component run by the Canada Council for the Arts). However, albums with Canadian content represent only a small proportion of sound recordings released on the Canadian market (about 12%) and a small proportion of sales (between 13% and 15%).

Average contributions made by MusicAction and FACTOR for the production of albums were $19,553 and $14,164 respectively. In FACTOR's case, there was a noticeable reduction in average assistance beginning in 1994-95. Since then, its average has been around $10,000. FACTOR represented 65% of the albums that received production support, but only 58% of the total resources allocated to production (see Tables C.36 and C.37).

Table C.36: Average and Total Contribution for Production Programs/Projects, MusicAction

In Dollars	Number of Albums	Average Contribution	Total Contribution
1986	56	11,875	665,022
1987	87	18,187	1,582,232
1988	49	15,046	737,236
1989	62	21,501	1,333,045
1990	58	26,444	1,533,752
1991	61	20,288	1,237,585
1992	59	18,806	1,109,539
1993	60	21,844	1,310,653
1994	55	18,978	1,043,809
1995	58	23,564	1,366,693
1996	83	18,424	1,529,182
1997	96	19,592	1,880,792
Total	784	19,563	15,329,520

Table C.37: Average and Total Contribution for Production Programs/Projects, FACTOR

Year	Number of Albums	Average Contribution	Total Contribution
1986	126	16,894	2,128,694
1987	113	15,559	1,758,178
1988	42	25,474	1,069,924
1989	94	16,225	1,525,158
1990	96	18,728	1,797,853
1991	77	21,534	1,658,083
1992	73	19,721	1,439,605
1993	107	17,566	1,879,581
1994	187	10,562	1,975,090
1995	175	9,967	1,747,800
1996	169	10,032	1,695,449
1997	221	10,349	2,287,189
Total	1,480	14,164	20,962,605

C.8 ASSISTANCE FOR THE PRODUCTION OF SPECIALIZED MUSIC

Amount of Assistance

Assistance provided for the production of specialized music component has been administered by the *Canada Council for the Arts* since the beginning of the SRDP. From 1986-87 to 1996-97, its annual budget was $250,000. Since then, it has increased to $550,000, which is approximately equal to the increase in the SRDP's total budget from 1997-98 on (120% / 112%).

Furthermore, the Canada Council mobilized complementary resources within the framework of this component and it covers all administration costs of the program unit. Thus, from 1987 to 1996, the total amount of assistance granted for the production of specialized music was approximately $3.7 million, $2.5 million (68%) of which came from the SRDP, while $1.2 million (32%) came from the complementary Canada Council budgets. These complementary budgets varied greatly each year, with the total annual budget being twice that of the SRDP contribution during certain years, and scarcely bigger at all during other years (see Table C.38).

Distribution of Assistance Per Beneficiary According to the Number of Projects and Amount of Assistance

During the first ten years of the SRDP, 286 projects were supported for 163 beneficiaries, i.e., the average assistance was about $12,800 per project and $22,400 per beneficiary (see Table C.39).

About 70% of these beneficiaries received assistance on only one occasion, representing 40% of the total number of supported projects. Another 20% of beneficiaries received support for 2 projects, representing 22% of the total number of projects. Therefore, 9/10ths of all beneficiaries were "transient" beneficiaries, receiving support on only one or two occasions.

However, the remaining 10% formed a group of beneficiaries who received more steady or lasting support, with an average of 6.8 projects supported per beneficiary. From 1987 to 1996, almost 40% of projects supported were part of this group of main beneficiaries (according to the number of projects).

Table C.38: Support for the "Production of Specialized Music", Assistance Granted, 1987-1996

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Total
SRDP Budget (MPC)	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$250,000	$2,500,000
Canada Council Complementary Assistance	$270,000	($48,810)	$76 ,819	$200,392	$200,392	$51,850	$47,000	$269,500	$7 ,400	$202,800	$1,156 ,919
Total Assistance	$520,000	$201,190	$326,819	$450,392	$450,392	$301,850	$297,000	$519,500	$257,400	$452,800	$3,656,919

Table C.39: "Production of Specialized Music", Distribution of Assistance Per Beneficiary Group According to the Number of Projects Per Beneficiary, 1987-1996

Tenths	Number of Different Beneficiaries	Amount of Assistance	Number of Projects	Share of Total Assistance	Average Assistance Per Beneficiary	Average Assistance / Project	Average Number of Projects Supported / Beneficiary	Share of Total Number of Projects
1	16	$1,555,100	109	42.5%	$97,194	$14,267	6.8	38.1%
2	16	$507,460	32	13.9%	$31,716	$15,858	2.0	11.2%
3	16	$309,701	30	8.5%	$19,356	$10,323	1.9	10.5%
4	16	$313,500	16	8.6%	$19,594	$19,594	1.0	5.6%
5	16	$239,900	16	6.6%	$14,994	$14,994	1.0	5.6%
6	16	$214,629	16	5.9%	$13,414	$13,414	1.0	5.6%
7	16	$190,892	16	5.2%	$11,931	$11,931	1.0	5.6%
8	16	$158,950	16	4.3%	$9,934	$9,934	1.0	5.6%
9	16	$114,345	16	3.1%	$7,147	$7,147	1.0	5.6%
10	19	$52,442	19	1.4%	$2,760	$2,760	1.0	6.6%
Total	163	$3,656,919	286	100.0%	$22,435	$12,786	1.8	100.0%

The average assistance received per project by beneficiaries in the top 10% was only slightly higher than for all projects combined ($14,300 / $12,800). Because they had more projects accepted over several years, they received a proportionally bigger share of the total assistance granted (43%), and they also received an average amount of assistance per beneficiary which was distinctly greater than that received by the other 90% of beneficiaries ($97,000 / $14,000).

This 10% of beneficiaries who received the most assistance over the years formed a heterogeneous group. Four beneficiaries (2.5% of beneficiaries) received assistance for more than 10 projects (with a maximum of 18), and together they represented 27.3% of the total number of supported projects and 22.4% of the total assistance granted. They received an average of about $15,600 per project, and almost $200,000 per beneficiary.

The "production of specialized music" component also had a heterogeneous allocation profile according to which the large majority of artists (90.2%) received transient support (for 1 or 2 projects), with a relatively limited intermediate group (7.4%)[7], and a small group of beneficiaries who received steady support. We do not know how much of this high degree of change within the population can be explained by: (i) the very volatile nature of requests per artist (occasional requests)[8], (ii) changes in requests according to type of music, (iii) the difficulty experienced frequently by past beneficiaries in submitting quality projects (appreciated by juries) subsequently, and (iv) the necessity, as deemed by juries, to ensure such a renewal, considering demands for support according to region and for each type of music to be met.

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7 In this group, there were 6 beneficiaries with 3 projects accepted and 6 with 4 to 6 projects accepted.

8 An "occasional" request may be made because it is for a particular project for a community or musical group, or because the artist has met with limitations and other reasons to abandon the pursuit of artistic development in specialized music.

Types of Music

The results indicate that the volatility of requests per artist may be a significant factor in explaining the relative importance of these changes, however, the other above-mentioned factors may also have played a role. Thus, out of the requests made in 1996-97, the Committee decided that the 16 submissions for "electro-acoustic music" were "extremely weak" and only approved 2 of them. However, Canadians played the role of figurehead[9] in the development of this type of music. Requests in the categories of "jazz"[10] and "World Music" were also considered weak. In the latter case, the difficulties that artists from different communities had in filling in forms adequately are explained by a lack of awareness of North American management practices. However, the Committee considered the project submissions for traditional Asian classical music to be solid and of high quality.

Furthermore, the marked renewal of beneficiaries is also explained by the expansion of the component/program over the past years to include more varied musical forms. In retrospect, the lack of clarity in the definition of specialized music (i.e. what it does and does not include) caused problems. Certain requests were addressed to the wrong program, with "specialized music production" projects being addressed to the Canada Council, which considered them to be a matter for MusicAction and FACTOR production assistance, and vice versa. This would not be a problem today: "as part of the creation of a new application form, a more detailed definition was developed. Information officers in the Arts Service Unit and Music Section staff discussed the criteria with prospective clients and were able to direct a number of them to FACTOR and MusicAction". According to the Committee's information report, this had the dual advantage of reducing the number of ineligible requests submitted to the Committee and preventing "clients" from submitting another request to FMC. This is how the Committee explains the decrease in the number of projects submitted, from 300 in 1996 to 211 in 1997[11].

Specialized music, both composed or improvised, was defined as not having a commercial vocation (1994). It covers the "alternative" scene, and today it encompasses a variety of types of music. Table C.40 presents the number and distribution of requests per type which were submitted to the Canada Council. The Canada Council's attempt to diversify forms of specialized music covers the attempt to reach diverse cultural communities more extensively.

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9 "Jury / Committee Overview Report", 1996-97

10 The decrease in public performance opportunities (notably because of the closing of 3 clubs in Vancouver) was taken into consideration to explain these results. For the Committee, "this underlines initiatives in the area of management and career development that the section is taking and plans to take in order to increase public performance opportunities for Jazz artists".

11 In 1994, there were 145 requests made (20 of which were accepted, i.e. 13.8%), and in 1995 there were 179 (22 of which were accepted, i.e. 12.3%).

Table C.40: Number and Distribution of Requests According to the Type of Specialized Music, 1997

Type of Music	Number of Requests	%
Classical Incl. *Asian Traditions*	52 5	24.6%
Folk	48	22.7%
Jazz	46	21.8%
World Music	29	13.7%
Electro-acoustic	16	7.6%
First Nations	12	5.7%
Musique Actuelle	8	3.8%
Total	211	100.0%

Regional Distribution

From 1987 to 1996, about 86% of the total assistance granted within the framework of the "production of specialized music" component benefited artists, ensembles, groups, record companies, and independent producers in Ontario (46%) and Quebec (40%). Those from British Columbia received 5.3% of this assistance. Projects in the eastern region (or Maritimes) represented a more or less equal share (5.5%). The assistance granted also benefited artists in Alberta (1.2%) and Manitoba (0.9%) (see Table C.41).

During the 10 years considered, assistance was always channelled towards Quebec and Ontario (100% in 1994). Assistance was allocated more irregularly to other provinces. There were beneficiaries in British Columbia for 6 out of 10 years (in 1996, there was a notable increase in assistance, representing a 21% share of the total assistance, which was comparable to that of Quebec, i.e. 26%).

Saskatchewan does not appear among the beneficiaries, and the Yukon appears in one year (1995). The other provinces appear in 2 to 4 years (see Table C.42).

Table C.41: Regional Distribution of Assistance, Production of Specialized Music, 1987-1996

Provinces and Territories	Total ($)	%
Ontario	1,675,867	45.8%
Quebec	1,463,927	40.0%
British Columbia	195,394	5.3%
Nova Scotia	92,000	2.5%
New Brunswick	47,650	1.3%
Prince Edward Island	34,710	0.9%
Newfoundland	29,092	0.8%
Alberta	43,664	1.2%
Manitoba	32,515	0.9%
Yukon	26,000	0.7%
Unidentified	16,100	0.4%
Total	3,656,919	100.0%

Source: EEC Canada compilations from Canada Council lists of accepted requests

The geographical concentration of assistance for the "production of specialized music" seems related to that of requests coming from the biggest cities in Canada, i.e. Toronto, Montreal, and Vancouver. Furthermore, there are equal numbers of "First Nations" music requests from the Yukon, British Columbia, the Northwest Territories, Ontario, Quebec, and New Brunswick.

There is also a certain relationship between the type of music and the geographical origin. Many requests in the "world beat" category come from British Columbia, and Quebec dominates in "Musique Actuelle".

Table C.42: Annual Regional Distribution of Assistance, "Production of Specialized Music", 1987 to 1996

Province	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	Total	Number of Years
Alberta				13,964			10,000		7,900	11,800	43 ,664	4
British Columbia	21,500		1,294	13,000			30,000		34,300	95,300	195,394	6
Manitoba	4,050	9,000		12,965						6,500	32,515	4
New Brunswick			7,650		40,000						47,650	2
Newfoundland		10,000	7,492	11,600							29,092	3
Nova Scotia					20,000		25,000		20,000	27 ,000	92,000	4
Ontario	309,600	113,190	182,387	98,356	132,584	190,000	81,550	310,300	82,300	177,600	1,675, 867	10
Prince Edward Island				15, 760		8,000	10,950				34 ,710	3
Quebec	184,850	69,000	127,796	166,523	257,808	103,850	139,500	209,200	86,900	118,500	1,463 ,927	10
Yukon									26,000		26,000	1
Unidentified										16, 100	16,100	1
Total	520,000	201,190	326,619	450,392	450,392	301,850	297,000	519,500	257,400	452,800	3 656,919	10
Number of Provinces / Terr.	4	4	5	7	4	3	5	4	6	6	10	

Source: EEC Canada compilations from Canada Council lists of accepted requests

In conclusion, the "production of specialized music" component is addressed to a wide variety of musical types, groups, and communities. Production support for a wide variety of albums and projects helps achieve the goal of maximizing opportunities to "materialize", "develop", and "accumulate" Canadian musical heritage in specialized music. This being the case, the fact that a very significant share of assistance granted goes to transient and occasional production support greatly limits the attainment of this goal, because it does not foster favourable conditions for the development of careers and organizational and technological capacities (networks).

Production and Distribution

Furthermore, even though a commercial vocation is not essential for specialized music, and its commercial potential is often relatively limited, marketing and distribution are important in ensuring the emergence of and support for small companies, as well as the continuity of artists' creative efforts.

In this respect, the MusicAction and FACTOR "distribution of specialized music" component, established on the basis of support for the distribution of specific albums and for transient projects (like their other programs), does not appear to have complemented the "production of specialized music" component. This clearly stands out in the observation that annual budgets for the "distribution of specialized music" component are not used fully, although they were limited to $135,000 for a long time ($200,000 from 1997-98 onwards). From 1993-94 to 1996-97, the assistance granted by this component represented 74%, 53.6%, 60.6%, and 62.6% of annual budgets. Considering the number of projects and the amount of assistance granted for the production of specialized music, a smaller actual demand for distribution assistance suggests even more that the potential demand for support is not being adequately met (the unused earmarked budgets being transferred to other program units under DCH administration, and likewise later under FMC). Since FMC supported all the eligible projects, this under-use might be attributable simply to the low application level (based on the hypothesis that the conditions for admissibility are well adapted to the distribution of specialized music). However, the large spread between assistance producing and distributing specialized music, as much from the point of view of the number of projects assisted as from the extent of assistance, is symptomatic of a lack of complementarity and inadequate guidance with respect to distributing specialized music.

There seems to have been some tendency towards splitting or mutually excluding of production assistance delivered specifically for supporting artists (individuals or groups) in specialized music on the one hand, and, on the other, distribution assistance for specialized music being directed specifically towards more-established firms and

distributors. This serves well neither established firms that wish to develop catalogues of "off-the-beaten-path" music for its artistic value, nor the career development of those working in specialized music.

This arises from the fundamental ambiguity of the SRDP's definition of "specialized music" and allows it to continue by cropping up in the decoupling of management responsibilities among widely differing cultural organizations.

The SRDP is a business development program. In this sense, it is oriented towards supporting albums, artists, companies in musical styles with enough market recognition and whose marketing potential for a large enough project/products package may be both better protected and increased.

The designers of the SRDP also thought to provide the program with an arm oriented to supporting album production and distribution in musical styles that are currently either unknown or little known to the market.

This may ultimately be justifiable as business development given that relatively marginal styles in market terms, new or not, may be the breeding ground for some that will rise eventually to open up a significant market or develop long and strong enough to be a music niche.

Nevertheless, specialized music appears to have been included in the SRDP's activities with an eye to supporting and developing the variety of musical styles and forms of expression in the broadest sense. 'Business development' is not the bottom line here. In this context, it might be music that is a form of cultural expression for various collectives or social groups, music that is purely experimental by nature, and any other music that is neither conventional nor marketed that seems to be part of an artistic process or movement. Market potential is not important to this. On one hand, even if this potential should often and reasonably be presumed to be very limited, the collective advantages can, nonetheless, outweigh the cost of assistance (that can, then, be economically justifiable). On the other hand, it is scarcely possible to evaluate long-term market potential on an individual project basis, the long-term collective benefits only being measurable historically against the entire portfolio of projects supported.

In fact, the FMC finds itself – contradictory as it is – having to support distribution for 'specialized music' projects (defined by the absence of present market potential) that have a presumed short- to medium-term market potential (that means, projects whose promoters, including established companies, are ready to underwrite them financially, and that therefore may do as well as or better than projects of recognized musical styles.

Conversely, the Arts Council finds itself, under a business development program, with the job of supporting production for projects that have no current notable market potential. This has as a consequence that distribution assistance is not adapted to the circulation and marketing needs of most of the beneficiaries of production assistance, and conversely, that those who in principle are best placed to ensure their specialized music albums reach the market, are the last to receive production support.

This ambiguity cannot be removed simply by reassigning the program unit for distributing specialized music to the Heritage Department or the Arts Council.

One possible solution might be that the Arts Council offer support to its target clienteles that is not limited to production but open to various aspects (individual or cooperative) and activities that contribute to enhancing the processes and products involved (exchanging information among peers, contacts, production and involvement in events, networking on the Internet...). The Arts Council beneficiaries would then only have to apply there. In this case, regarding specialized music projects developed by record labels and specialized distributors, the Heritage Department could underwrite a 'specialized music' program unit to grant assistance to businesses under more 'comprehensive' development and enhancement programs from their specialized catalogue.

C.9. ASSISTANCE FOR BUSINESS DEVELOPMENT (FMC)

While the other FMC components support projects for the production and marketing of sound recordings, and are directed mostly towards specific albums and individual companies, the "business development" component aims at supporting:

(i) the development of professional and management capacities of sound recording companies (professional training/improvement, seminars on financial management, human resources, production, and distribution), and

(ii) initiatives and large-scale events which work towards the promotion and/or marketing of the Canadian sound recording industry.

This component's annual budget was $270,000 until 1993-94, when its management was transferred from Canadian Heritage, which had run it since the first year of the SRDP, to FMC. The annual budget was $270,000 in 1994-95 following the October 1993 contribution agreement, and was adjusted to $250,000 and $240,000 for the next two years. After the March 1997 contribution agreement, the budget for the "business development" component was almost doubled, an amount of $475,000 annually for the period 1997-98 to 1999-2000 (see Table C.43).

From 1993-94 to 1996-97, the total amount of assistance granted by MusicAction annually for accepted requests was on average $87,000. In 1997-98, it climbed to $190,000. In 1997-98, MusicAction supported 11 different beneficiaries, whereas during the 4 preceding years there were 4 or 5 beneficiaries. From 1993-94 to 1997-98, 14 different beneficiaries received MusicAction support through this component. Major events such as the *ADISQ* (meetings, gala), the *Francofolies de Montréal* and the *Festival de la chanson de Granby* received regular support. While all assistance was granted to initiatives and events in Quebec in 1993-94 and 1994-95, the share of assistance granted to projects outside Quebec (Maritimes, Ontario, Alberta) was 4% in 1995-96 ($3,000), 10.4% in 1996-97 ($10,000), and 9.2% in 1997-98 ($17,500) (see Table C.44). The average annual assistance per beneficiary in Quebec fluctuated between $16,300 (1993-94) and $26,104 (1995-96).

From 1993-94 to 1996-97, the total annual assistance granted by FACTOR's for accepted requests was on average about $170,000. In 1997-98, it climbed to $558,000 with annual expenses of $420,000 (i.e. distinctly above the initial budget). In 1997-98, FACTOR's supported 27 different beneficiaries, whereas during each of the 4 preceding years there were 11 to 13 beneficiaries. From 1993-94 to 1997-98, 35 different beneficiaries received Factor assistance through this component.

CIRPA, CARAS, Canadian Country Music Association, Songwriters Association of Canada (residents of Ontario), *B.C.Country Music Association, Music West Group Inc.* (British Columbia), and *Saskatchewan Recording Ind. Association* were the program's most regular beneficiaries (4 or 5 years out of the 5 years considered).

The majority of assistance granted by FACTOR's for "business development" is to large-scale initiatives of Ontario organizations. Over the period 1993-94 to 1996-97, requests accepted from Ontario represented 59.6% of the total annual assistance through this component. In 1997-98, this share was distinctly bigger due to an exceptional increase in assistance, without a decrease in assistance to other regions; there was, on the contrary, a very large increase (+73%), especially for the Atlantic regions and the Prairies (see Table C.44). Setting aside 1997-98, the average annual assistance per beneficiary from Ontario fluctuated between $12,300 (1995-96) and $19,300 (1996-97).

On the whole, the profile of assistance granted within the framework of the "business development" component demonstrates that it was used mostly to support large-scale initiatives and major sector-based and regional events. Assistance for the development of professional and management capacities, notably in the form of direct assistance for businesses, was not very significant.

This component had a definite impact in terms of support for major events, but its impact was probably relatively limited in terms of the development of business management capacities.

Table C.43: Available Amount of Assistance and Amount Distributed Within the "Business Development" Component, 1986-87 to 1997-98

	Can. Heritage[12]	FMC				
	1986-87 to 1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
TOTAL BUDGET COMPONENT	$270,000	$270,000	$270,000	$250,000	$240,000	$475,000
MUSICACTION						
Attributed Budget (40%)		$108,000	$108,000	$100,000	$96,000	$190,000
Approved Amount		$81,500	$89,000	$81,613	$96,475	$189,748
Expenses		$81,500	$89,500	$81,613	$95,939	$210,861
FACTOR						
Attributed Budget (60%)		$162,000	$162,000	$150,000	$144,000	$285,000
Approved Amount		$181,996	$162,943	$135,250	$201,300	$557,699
Expenses		$67,196	$129,832	$155,408	$208,332	$420,798
TOTAL FMC						
Total Budget (100%)		$270,000	$270,000	$250,000	$240,000	$475,000
Approved Amount		$263,496	$251,943	$216,863	$297,775	$747,448
Expenses		$148,696	$219,332	$237,021	$304,271	$631,659

Source: EEC Canada compilations from the contribution agreements and FMC, MusicAction, and FACTOR annual reports.

[12] The unavailability of reference documents prevents detailed information about this component from being provided for the period 1986-87 to 1992-93.

Table C.44: Regional Distribution of Assistance, MusicAction and FACTOR "Business Development" Component, 1993-94 to 1997-98

Amount $	1993-94	1994-95	1995-96	1996-97	1997-98
MUSICACTION					
Quebec	81,500	89,000	78,313	86,475	172,248
Outside Quebec	0	0	3,300	10,000	17,500
Total	81,500	89,000	81,613	96,475	189,748
FACTOR					
Ontario	108,000	108,943	74,000	115,800	410,326
British Columbia	54,000	31,000	26,000	26,000	36,000
Prairies	9,996	10,000	15,000	7,500	41,919
Atlantic	10,000	13,000	20,250	52,000	69,454
Total	181,996	162,943	135,250	201,300	557,699
Distribution %					
MUSICACTION					
Quebec	100.0%	100.0%	96.0%	89.6%	90.8%
Outside Quebec	0.0%	0.0%	4.0%	10.4%	9.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
FACTOR					
Ontario	59.3%	66.9%	54.7%	57.5%	73.6%
British Columbia	29.7%	19.0%	19.2%	12.9%	6.5%
Prairies	5.5%	6.1%	11.1%	3.7%	7.5%
Atlantic	5.5%	8.0%	15.0%	25.8%	12.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

C.10. SUPPORT FOR THE DEVELOPMENT OF FEDERAL POLICIES (MPC)

"Support for the development of federal policies for sound recordings" recently became a component. With an annual budget of $375,000, this component is managed by Canadian Heritage. Its objective is to support projects of national professional non-profit organizations which contribute to the development of federal sound recording policies and which benefit the whole independent sector of the industry. In the definition of this component, Canadian Heritage indicates that the ministry *"will identify its needs every year in terms of the development of policies in the sound recording domain and will contribute financially to research or all other initiatives which will allow these needs to be met"*.

During its first year (1997-98), Canadian Heritage supported 8 research projects. Approximately 3/4 of the total assistance provided was for projects from the *Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ)* and the *Canadian Independent Record Production Association (CIRPA)*, with $140,000 each. Projects from national singer-songwriter associations, i.e. the *Société Professionnelle des Auteurs et des Compositeurs du Québec (SPACQ)* and the *Songwriters Association of Canada (SAC)*, each received $22,500, or together, 12% of the total assistance granted within the framework of this component.

These four associations, with the *Canadian Country Music Association (CCMA)*, whose research project received $15,000 in 1997-98, were the beneficiaries of the 5 projects supported by the program for the development of federal policies during the following year (1998-99).

During the first year of the program, the *Canadian Association of Advancement in Music and the Arts (CAAMA)* and the *Fédération culturelle canadienne-française (FCCF)* were also program beneficiaries (see Table C.45).

Table C.45: Support for the Development of Federal Policies, Amount and Description of Projects

	Amount		Project Description	
	1997-98	1998-99	1997-98	1998-99
FRANCOPHONE SEGMENT				
ADISQ	$140,000	$140,000	- industry financing (new tech., distr., marketing) - phase III revision copyright law - general policy sect. questions (foreign invest., etc.)	- situation of independent sector - dev. financing and industr. expert. measures - collab. record and rad. broad. industries - new trends distr. retail sales - gen. dev. sect. pol.
SPACQ	$22,500	$30,000	- new tech. and creation-manag.-pub. of work - phase III revision copyright law	- singer-songwriter situation (sources of income, prof. training needs)
FCCF	$4,500		- Internet and sound recording sales	
FCCF & Grouping of Song and Music Prof.	$5,500		- polit.& progr. sect. (marketing) and prom.-distr.-mark. strategy franco. Canada	
ANGLOPHONE SEGMENT				
CIRPA	$140,000	$155,000	- growth and future sect. dev. - changes marketing-distribution meth/models - protection rights (copying, pirating, etc.) - internat. invest. agreements, prop. rights	- situation independent sect. Can. control - financing measures stimul. industry growth - new marketing, distrib. trends - copyright protection (digit. tech.) - dev. sect. pol.
SAC	$22,500	$30,000	- copyright status and new technologies	- singer-song. sources of rev./work. - changes pub. / creators' role - advantages-disadv. self-pub., co-pub., opportunities pub.-creator alliances - creator support deliv. mechanisms
CCMA	$15,000	$20,000	- dev. database and audience analysis for country music in Canada	- struct. Can. indep. country music sect. (strengths and weaknesses, stakes and opportunities) - reinforcement incentives
CAAMA	$25,000		- SRDP funds, incent. and tax credit - pol. foreign invest - multimedia and Internet (property rights) - state independent distr.	
TOTAL AMOUNT	$375,000	$375,000		

Priority research themes, as defined by Canadian Heritage since the beginning of the program, concern different stakes and aspects of development and of sector-based policies, notably the situation of the independent sector with respect to changes in the industry and the record market, as well as perspectives on its development (as affected by the impact of new technologies, new trends, etc.) (see summary, Table C.46).

On the whole, the accepted projects in 1997-98 and 1998-1999 allowed research to be conducted in each of the priority themes as defined by Canadian Heritage (see Table C.47). However, because these priorities and the projects submitted by national associations are defined in a relatively general way, it is impossible to evaluate the extent to which the accepted projects cover the different priority themes and how the results obtained contribute to clarifying them and supporting the development of federal policies in the record industry.

Table C.46. Support for the Development of Federal Policies Research Priorities, 1997-98 to 1999-2000

GENERAL CATEGORIZATION[13]	1997-98	1998-99	1999-2000
Impact of new technologies	Effect of new technologies on the industry		
			Protect. intellectual property, new technologies and electronic commerce
Market dynamics and situation of independent sector	Promotion, distribution, and marketing of Canadian sound recordings		
		Present state of the Canadian independent sector	
		New market trends for distribution and retail sales	
			Distribution of independent productions in Canada
			Financial profile of Canadian businesses in the record industry
Development of capacities		Training and development of industrial expertise	
Collaboration between record industry and radio broadcasters	Collaboration between record industry and radio broadcasters		Collaboration between record industry and radio broadcasters
Problems and relations between creators and music publishers			Music publishing and creation in Canada
Policies and assistance programs for the development of the Canadian sound recording industry	Policy in terms of foreign investment		
	Develop. of incentive measures private investment		
			Impact of public programs for development support in the Canadian record industry

[13] This general categorization was established afterwards by EEC Canada to provide a more integrated view of the priorities over the three years of the program.

Table C.47: Support for the Development of Federal Policies Research Priorities and Support Projects

CANADIAN HERITAGE RESEARCH PRIORITIES	PROJECTS / BENEFICIARIES							
	ADISQ	CIRPA	SPACQ	SAC	CCMA	CAAMA	FCCF	FCCF & Reg.prof.
1997-98								
Effect of new technologies on the industry	■	■	■	■		■	■	
Promotion-distribution-marketing Canadian sound recordings	■	■			■	■	■	■
Sect. policy foreign investment	■	■				■		
Development of incentive measures investment private sect.	■							
1998-99								
Present state Can. independent sect.	■	■	■	■	■			
Training & dev. industr. expertise	■		■					
Record-radio broad. industr. collab.	■							
Music pub. and creation				■				
New trends in distrib, retail sales	■	■						
1999-2000								
Impact public programs dev. Can. record industry								
Financial profile Can. businesses								
Collab. between record industry and public radio broad.								
Distrib. independ. prod. in Canada								
Protect. intell. property / new tech. and electronic commerce								

D. FMC MANAGEMENT PROFILE

D.1. FMC, FACTOR, AND MUSICACTION FINANCING AND REVENUES

The main source of financing for FMC is the contribution that it receives within the framework of the agreements signed with the Department of Canadian Heritage. This contribution is ceded back to MusicAction and FACTOR in the respective proportions of 40% and 60%[14]. It is also the main source of revenue for the two management agencies. The contributions from radio broadcasters and loan reimbursements form the two other main sources of revenue for MusicAction and FACTOR. However, interest revenues make up a significant portion of FACTOR's and MusicAction's revenues.

From 1986-87 to 1997-98, the total combined revenue of FACTOR and MusicAction was $75.7 million (see Table D.1) of which $51.2 million came from Canadian Heritage, i.e. 67.7% (see Table D.2).

The contributions made by radio broadcasters and cable distributors reached $15.2 million, i.e. 20.1% of the total combined revenue.

Together, FACTOR and MusicAction received $7.1 million in loan reimbursements, i.e. 9.4% of their total combined revenue. Furthermore, the interest revenues[15] brought them $1.9 million, i.e. 2.6% of their total combined revenue.

The distribution of revenues according to source is markedly different for MusicAction and FACTOR. Over the whole period 1986-87 to 1997-98, the share of the total financing provided by Canadian Heritage was relatively comparable for FACTOR (66.2%) and MusicAction (69.9%).

However, in terms of private financing, the contribution made by radio broadcasters was bigger for FACTOR (about 22.6% of the total revenue) than it was for MusicAction (16.3% of the total revenue).

Conversely, loan reimbursements represented a bigger share of the total revenues for MusicAction than for FACTOR, i.e. 12.7% and 7.3% respectively. Finally, interest payments were a source of revenue which was markedly bigger for FACTOR (3.5% of its total revenues) than for MusicAction (1%).

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[14] FMC meets certain administrative expenses.

[15] These interest revenues can, at least in part, be considered as an "indirect public contribution" resulting from the direct contribution investment.

Table D.1.: Annual Revenues for MusicAction and FACTOR Per Source 1986-87 to 1997-98

In Dollars	MPC Public Contribution	Radio Broadcasters	Loan Reimburs.	Interest Revenues	Other	Total
FACTOR						
1986-87	2,220,000	701,240	56,184	18,364	20,927	3,016,715
1987-88	2,220,000	674,945	163,266	43,315	19,142	3,120,668
1988-89	2,220,000	759,422	209,998	50,856	12,151	3,252,227
1989-90	2,220,000	1,042,182	329,099	178,799	27,445	3,797,525
1990-91	2,220,000	986,267	272,827	302,609	18,830	3,802,533
1991-92	2,274,000	1,174,004	295,070	214,087	16,500	3,973,661
1992-93	2,249,972	920,290	303,497	175,500	21,200	3,670,459
1993-94	2,421,582	874,614	426,519	113,551	15,000	3,851,246
1994-95	2,538,758	683,532	329,058	164,933	41,225	3,757,506
1995-96	2,537,410	675,912	301,768	179,468	933	3,695,491
1996-97	2,540,942	938,917	356,510	94,514	0	3,930,883
1997-98	5,147,695	1,056,400	331,166	107,886	0	6,643,147
Total Years	30,810,339	10,489,725	3,374,982	1,643,682	193,353	46,512,061
MusicAction						
1986-87	1,480,000	269,124	0	10,145	0	1,759,269
1987-88	1,480,000	375,000	140,050	40,344	0	2,035,394
1988-89	1,480,000	457,500	267,875	17,988	0	2,223,363
1989-90	1,480,000	406,482	362,693	39,941	0	2,289,116
1990-91	1,480,000	405,917	382,757	52,979	0	2,321,653
1991-92	1,516,000	401,940	376,693	46,449	0	2,341,082
1992-93	1,560,028	448,328	569,350	21,080	0	2,598,784
1993-94	1,565,566	332,937	363,293	13,972	0	2,275,768
1994-95	1,861,242	426,464	323,038	17,112	0	2,427,856
1995-96	1,662,590	507,971	421,312	18,664	0	2,610,537
1996-97	1,659,058	325,685	357,757	13,876	0	2,356,376
1997-98	3,377,305	399,100	137,421	13,357	0	3,927,183
Total Years	20,401,789	4,756,448	37 022 39	305,907	0	29,166,381
Total FACTOR + MusicAction						
1986-87 to 1997-98	51,212,128	15,246,171	7,077,201	1,949,589	193,353	75,678,442

Source: EEC Canada compilations from annual reports for FMC, FACTOR, and MusicAction

Table D.2.: Distribution of Total Revenue for MusicAction and FACTOR Per Source, 1986-87 to 1997-98

In Dollars	MPC Public Contribution	Radio Broadcast.	Loan Reimburs.	Interest Revenues	Other	Total
FACTOR						
1986-87	73.6%	23.2%	1.9%	0.6%	0.7%	100.0%
1987-88	71.1%	21.6%	5.2%	1.4%	0.6%	100.0%
1988-89	68.3%	23.4%	6.5%	1.6%	0.4%	100.0%
1989-90	58.5%	27.4%	8.7%	4.7%	0.7%	100.0%
1990-91	58.4%	26.0%	7.2%	8.0%	0.5%	100.0%
1991-92	57.2%	29.5%	7.4%	5.4%	0.4%	100.0%
1992-93	61.3%	25.1%	8.3%	4.8%	0.6%	100.0%
1993-94	62.9%	22.7%	11.1%	2.9%	0.4%	100.0%
1994-95	67.6%	18.2%	8.8%	4.4%	1.1%	100.0%
1995-96	68.7%	18.3%	8.2%	4.9%	0.0%	100.0%
1996-97	64.6%	23.9%	9.1%	2.4%	0.0%	100.0%
1997-98	77.5%	15.9%	5.0%	1.6%	0.0%	100.0%
Total	66.2%	22.6%	7.3%	3.5%	0.4%	100.0%
MusicAction						
1986-87	84.1%	15.3%	0.0%	0.6%	0.0%	100.0%
1987-88	72.7%	18.4%	6.9%	2.0%	0.0%	100.0%
1988-89	66.6%	20.6%	12.0%	0.8%	0.0%	100.0%
1989-90	64.7%	17.8%	15.8%	1.7%	0.0%	100.0%
1990-91	63.7%	17.5%	16.5%	2.3%	0.0%	100.0%
1991-92	64.8%	17.2%	16.1%	2.0%	0.0%	100.0%
1992-93	60.0%	17.3%	21.9%	0.8%	0.0%	100.0%
1993-94	68.8%	14.6%	16.0%	0.6%	0.0%	100.0%
1994-95	68.4%	17.6%	13.3%	0.7%	0.0%	100.0%
1995-96	63.7%	19.5%	16.1%	0.7%	0.0%	100.0%
1996-97	70.4%	13.8%	15.2%	0.6%	0.0%	100.0%
1997-98	86.0%	10.2%	3.5%	0.3%	0.0%	100.0%
Total	69.9%	16.3%	12.7%	1.0%	0.0%	100.0%
FACTOR + MusicAction						
1986-87 to 1997-98	67.7%	20.1%	9.4%	2.6%	0.3%	100.0%

Source: EEC Canada compilations from annual reports for FMC, FACTOR, and MusicAction

Established in the context of the long-term agreements between Canadian Heritage and FMC, public contribution remained stable for the first 5 years at $3.7 million. It increased slightly the following 2 years to about $3.8 million (+2.4% in 1991-92 and +0.5% in 1992-93). In 1993-94, while FMC was left with the management of the "Business Development" and "Distribution of Specialized Music" components, the contribution made by Canadian Heritage to FMC increased by approximately $180,000 (i.e. 4.6%) to settle at about $4 million. During the next 3 years, the contribution was adjusted to $4.2 million. In 1997-98, it increased greatly, doubling to $8.5 million in the context of a three-year agreement.

The development of revenues from other sources was more volatile or irregular, especially the payments by radio broadcasters, but these other sources of revenue contributed greatly to the increase in total revenues for MusicAction and FACTOR. For FACTOR, the total revenue increased by about $1 million during the first 6 years of the SRDP, from about $3 million to $4 million. During the next 5 years, it fluctuated between $3.7 million and $3.9 million.

The fact stands out in an analysis of the increase in FACTOR's total revenue that the 18.6% virtual increase in FACTOR's total revenue over the period 1986-87 to 1996-97 is mainly due to the start-up and loan reimbursements (36%), as well as the increase in the contribution made by radio broadcasters (26%), and interest revenues (20%), with the increase in public contribution accounting for only 19% (see Table D.3). The major increase in public contribution in 1997-98, however, makes this source of revenue the main contributor to the increase in FACTOR's revenues over the first 12 years of the SRDP with respect to a reference situation with a stable total annual revenue (40.4%).

For MusicAction, the total revenue increased during the first 7 years (from $1.8 million in 1986-87 to $2.6 million in 1992-93). During the next 4 years, it fluctuated between $2.3 and $2.6 million, to reach around $3.9 million in 1997-98. With respect to the reference situation which would have prevailed with an amount and a revenue structure remaining unchanged over the years, the accumulated increase in revenues for MusicAction from 1986-87 to 1992-93 represents 30.4% of the total revenues that it would have made over the same period with an unchanged annual revenue. This increase is attributable to loan reimbursements (60.6%), payments by radio broadcasters (23.7%), and the increase in public contribution (12.6%).

Despite the large increase in public contribution in 1997-98, loan reimbursements are still the main source of the increase in MusicAction's accumulated revenues (46%), followed by public contribution (33%) and payments by radio broadcasters (19%).

Table D.3.: Contribution Made by Different Sources to the Evolution of Total Revenues for FACTOR and MusicAction, 1986-87 to 1997-98

	Accumulated Increase in Revenues[18]	Contribution made by different sources to the increase in total accumulated revenue					
		Public Contrib.	Radio Broadcasters	Loan Reimburs.	Interest Revenues	Other	Total
FACTOR							
1986-87 to 1991-92 (6 years)	15.8%	1.9%	39.6%	34.6%	24.4%	-0.4%	100.0%
1992-93 to 1996-97 (5 years)	25.3%	31.1%	15.4%	37.6%	16.6%	-0.7%	100.0%
1986-87 to 1996-97 (11 years)	20.1%	18.6%	25.7%	36.3%	20.0%	-0.6%	100.0%
1986-87 to 1997-98 (12 years)	28.5%	40.4%	20.1%	26.2%	13.8%	-0.6%	100.0%
MusicAction							
1986-87 to 1992-93 (7 years)	26.4%	3.6%	27.1%	64.5%	4.9%	0.0%	100.0%
1993-94 to 1996-97 (4 years)	37.4%	23.9%	19.6%	55.6%	0.9%	0.0%	100.0%
1986-87 to 1996-97 (11 years)	30.4%	12.6%	23.7%	60.6%	3.1%	0.0%	100.0%
1986-87 to 1997-98 (12 years)	38.2%	32.8%	19.0%	46.0%	2.3%	0.0%	100.0%

Source: EEC Canada compilations from annual reports for FMC, FACTOR, and MusicAction (financial statements).

[18] The rates represent the relative increase in the total accumulated revenue effective for the period being considered, in relation to the total revenue for the first year multiplied by the number of years in the period being considered (reference situation with unchanged revenue).

Financing was the main freezing factor identified during the diagnostic work prior to the SRDP. The SRDP counted on a lever effect to loosen constraints through the participation of the private sector, as well as through direct public contribution.

The results presented below indicate that contributions made by radio broadcasters were steady, however, the relatively volatile contributions of the CRTC can be understood in a wider context (see Table D.4).

The private revenues for FACTOR and MusicAction also improved notably through loan reimbursements from within the sound recording industry. Under these circumstances, the capital acquired by FMC, is fungible regarding its use. The interest is generated by cash available during the lead time between ***blended*** Canadian Heritage and private sector funding transfers to FMC and FMC's disbursements shifting the funding to beneficiaries and paying their administration costs. If public funding transfers were deferred, and expenses covered first by private sector funding, interest income from them would be greatly reduced. This being the case, quite clearly, FMC's interest income is in large part (around 2/3) a direct 'spin-off' benefit from public funding, that is; implicit public funding.

The unavailability of financial data about companies on a sufficient historical basis prevents an analysis of the evolution of potential leverage via increased connections with the banking and financial system (venture capital) during the SRDP[17] years.

[17] The study on risk which was carried out within the framework of the present evaluation of the SRDP sheds some light on the evolution of the financial situation of companies.

Table D.4.: Comparison of Public Contributions and Payments by Radio Broadcasters Made to MusicAction and FACTOR, 1986-87 to 1997-98

	Federal Contr.	Rad. Broad.Contrib.	TOTAL
FACTOR			
1986-87	76.0%	24.0%	100.0%
1987-88	76.7%	23.3%	100.0%
1988-89	74.5%	25.5%	100.0%
1989-90	68.1%	31.9%	100.0%
1990-91	69.2%	30.8%	100.0%
1991-92	66.0%	34.0%	100.0%
1992-93	71.0%	29.0%	100.0%
1993-94	73.5%	26.5%	100.0%
1994-95	78.8%	21.2%	100.0%
1995-96	79.0%	21.0%	100.0%
1996-97	73.0%	27.0%	100.0%
1997-98	83.0%	17.0%	100.0%
Total Years	74.6%	25.4%	100.0%
1986-87 to 1996-97	73.1%	26.9%	100.0%
MusicAction			
1986-87	84.6%	15.4%	100.0%
1987-88	79.8%	20.2%	100.0%
1988-89	76.4%	23.6%	100.0%
1989-90	78.5%	21.5%	100.0%
1990-91	78.5%	21.5%	100.0%
1991-92	79.0%	21.0%	100.0%
1992-93	77.7%	22.3%	100.0%
1993-94	82.5%	17.5%	100.0%
1994-95	79.6%	20.4%	100.0%
1995-96	76.6%	23.4%	100.0%
1996-97	83.6%	16.4%	100.0%
1997-98	89.4%	10.6%	100.0%
Total years	81.1%	18.9%	100.0%
1986-87 to 1997-98	79.6%	20.4%	100.0%
Total FACTOR + MusicAction			
1986-87 to 1997-98	77.1%	22.9%	100.0%
1986-87 to 1996-97	75.6%	24.4%	100.0%

D.2. ADMINISTRATIVE COSTS (FMC)

Considering the total public contribution and by charging the FMC "head" entity[18] administrative costs to its two constituents in proportion to public contribution shares (60% and 40%), the FMC administrative costs (of FACTOR and MusicAction combined) represented an average of 15.9% of their total revenue over the 1989-90 to 1997-98 period. Administrative costs represented a markedly higher proportion of the total revenue for MusicAction (17.6%) than for FACTOR (14.8%) (see Table D.5).

After the first two years during which its administrative costs were higher than 17% and 18% of its total revenue, the increase in FACTOR's total revenue and cost control reduced this ratio to about 14% during the next 4 years. However, in 1992-93, an increase in administrative costs combined with a decrease in total revenue translated into a ratio [costs/revenue] of 17.5%. In 1993-94, this ratio was of the same order, since the increase in revenue following the addition of new components was accompanied by an increase in administrative costs. During the next two years, in 1994-95 and 1995-96, this ratio was reduced to between 14% and 15% through a reduction in administrative costs. The increase in revenues during the next two years, notably in 1997-98 as a result of public contribution, was accompanied by an increase in administrative costs which remained in the proportions of 14.7% and 13.3% of FACTOR's total revenues.

Over the period 1989-90 to 1997-98, except in 1991-92 when the ratio reached close to 22% and in 1997-98 when it greatly decreased to 13.2%, the ratio [administrative costs/ total revenue] fluctuated between 16% (1996-97) and 19.4% (1990-91). In 1991-92, the administrative costs climbed to about $500,000, a record beaten only marginally in 1997-98 ($511,000), when public contribution contributed to a high increase in total revenue.

[18] Except for the first years, the administrative costs for the FMC "head" entity, which varied from $15,000 to $28,000 between 1991-92 and 1997-98, represented only a small share of the total administrative costs.

Table D.5. Comparison of Administrative Costs to Total Revenue for MusicAction and FACTOR, 1986-87 to 1997-98

	Total Revenue $	Admin. Costs Without FMC	% Adm. Costs / Total Rev.	Admin. Costs Including FMC	% Adm. Costs / Total Rev.	% Adm./ Pub. Contrib. (MPC Agreements)
FACTOR						
1986-87	3,016,715	514,612	17.1%			10%
1987-88	3,120,868	574,396	18.4%			10%
1988-89	3,252,227	408,076	12.5%			12%
1989-90	3,797,525	465,709	12.3%	532,943	14.0%	12%
1990-91	3,802,533	524,175	13.8%	554,504	14.6%	12%
1991-92	3,973,661	527,743	13.3%	538,544	13.6%	15%
1992-93	3,670,459	634,055	17.3%	643,611	17.5%	15%
1993-94	3,851,246	662,337	17.2%	679,693	17.6%	15%
1994-95	3,757,506	546,579	14.5%	556,560	14.8%	15%
1995-96	3,695,491	510,217	13.8%	518,625	14.0%	15%
1996-97	3,930,883	569,108	14.5%	578,271	14.7%	15%
1997-98	6,643,147	870,470	13.1%	880,262	13.3%	15%
Total Years	46,512,061	6,807,577	14.6%			
1989-90 to 1997-98	37,122,451	5,310,493	14.3%	5,483,012	14.8%	
MusicAction						
1986-87	1,759,269	201,487	11.5%			10%
1987-88	2,035,394	330,679	16.2%			10%
1988-89	2,223,383	342,147	15.4%			12%
1989-90	2,289,116	385,448	16.8%	430,270	18.8%	12%
1990-91	2,321,653	430,357	18.5%	450,577	19.4%	12%
1991-92	2,341,082	501,378	21.4%	506,579	21.7%	15%
1992-93	2,598,784	475,865	18.3%	482,235	18.6%	15%
1993-94	2,275,768	392,632	17.3%	404,202	17.8%	15%
1994-95	2,427,856	410,362	16.9%	416,949	17.2%	15%
1995-96	2,610,537	482,063	18.5%	487,669	18.7%	15%
1996-97	2,356,376	371,508	15.8%	377,616	16.0%	15%
1997-98	3,927,183	511,177	13.0%	517,705	13.2%	15%
Total Years	29,166,381	4,835,103	16.6%			
1989-90 to 1997-98	23,148,355	3,960,790	17.1%	4,075,803	17.6%	
TOTAL FACTOR + MusicAction						
1986-87 to 1997-98	75,678,442	11,642,680	15.4%			
1989-90 to 1997-98	60,270,806	9,271,283	15.4%	9,558,815	15.9%	

Source: EEC Canada Compilations from the annual financial statements for FMC, FACTOR, and MusicAction

These observed rates are comparable to those appearing in the contribution agreements between Canadian Heritage and FMC. These agreements establish a maximum percentage of the contribution made by the Department which can be devoted to its administration[19]. However, the agencies' activities are essentially restricted to managing the SRDP program units within their jurisdiction, and public and private-sector funding is, in this respect, fungible regarding use of the money. It is both more pertinent and preferable (because it preserves the spirit of the clause and is without latent accounting ambiguity) to look at the ratio ***[Total Administration Fees / Total Income]*** rather than the ratio ***[Administration Fees Attributed to Managing Public Funding / Public Funding]*** to see to what extent administration fees have been kept within the agreed limits.

With this in mind, the result was that the ratios for FACTOR's administrative costs were frequently and notably higher for the first 8 years of the SRDP than the corresponding percentages indicated in the agreements, going from 10% to 12%, and then to 15%. However, since 1994-95, the observed rates have always been below 15%.

MusicAction's observed cost ratios are always higher than the corresponding rates for the agreements and higher than 15%, except in 1997-98 (13.2%), when the total revenue integrated the high increase in public contribution.

It is possible for this reason that the difference in the observed rates for FACTOR and MusicAction is the result of a scale phenomenon; that is to say, certain indivisibility or cost adjustment constraints, notably regarding required personnel and personnel costs (see Tables D.6 and D.7).

[19] The terms used in the Contribution Agreement are "the FMC should at no time allocates more than x% of the total contribution to administration and communication of this agreement".

Table D.6: FACTOR
Administrative Expenses and Salaries

Year	Total Administrative Costs	*Including* Salaries	Salaries/ Tot. Admin. Cost
1986	514,612	180,301	35.0%
1987	574,396	243,823	42.4%
1988	408,076	165,953	40.7%
1989	465,709	177,844	38.2%
1990	524,175	191,831	36.6%
1991	527,743	218,491	41.4%
1992	634,055	250,010	39.4%
1993	662,337	278,857	42.1%
1994	546,679	282,731	51.7%
1995	510,217	252,476	49.5%
1996	569,108	266,253	46.8%
1997	870,470	355,606	40.9%
Total	6,807,577	2,864,176	42.1%

Table D.7: MusicAction
Administrative Expenses and Salaries

Year	Total Administrative Costs	Salaries	Salaries/ Tot. Adm. Costs
1986	201,487	92,537	45.9%
1987	330,679	136,893	41.4%
1988	342,147	165,059	48.2%
1989	385,448	190,843	49.5%
1990	430,357	200,281	46.5%
1991	501,378	251,246	50.1%
1992	475,865	224,695	47.2%
1993	392,632	174,301	44.4%
1994	410,362	205,288	50.0%
1995	482,063	206,626	42.9%
1996	371,508	218,943	58.9%
1997	511,177	329,244	64.4%
Total	4,835,103	2,395,956	49.6%

Compared to their overall volume of activity as estimated from a composite index based on the number of requests received and beneficiary projects[20], administrative costs and wage bills appear significantly lower for FACTOR than for MusicAction. According to Table D.8 (MusicAction), the administrative cost index with respect to the overall volume of activity is approximately +43% higher for MusicAction[21]. Since salaries represent a markedly bigger share of the total administrative costs for MusicAction than for FACTOR, the wage cost index with regard to the overall volume of activity shows a relative difference between the two constituents of FMC which is more significant (+69%) than that estimated with administrative costs.

Inasmuch as these considerations stem from the dividing of structures, it is also reasonable to assume that certain additional costs accompany this.

In future, it would be desirable to:

(i) redefine the administrative cost criterion appearing in the contribution agreements to create an effective management criterion which better reflects the overall reality of operations;

(ii) establish the percentages of administrative costs based on detailed information about operational conditions, cost structure (according to programs), and the needs of executive agencies and the SRDP (also considering the comparative standards in program management); differentiating the rates according to agencies could possibly be justified if the economic conditions for the production of programs/services proved markedly different.

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20 This overall activity index was established by adding the number of requests received to the number of requests/projects accepted weighted respectively in the proportions of 1/4 and 3/4 (which corresponds to a distribution of total costs and time that was allotted to process the requests received and manage the accepted projects, which was equivalent to 3 months and 9 months respectively throughout the year).

21 These results depend on the accepted weighting rates that were assigned to the accepted requests and accepted projects, in this case 1/4 and 3/4 respectively; hypothetically, for example, if the accepted rates had been 1/8 and 7/8, i.e. if the resources and work time for the processing of requests received had represented 1.5 months per year and project management 10.5 months, the administrative cost index in relation to the overall volume of activity would have been 23.8% higher than that of FACTOR.

Table D.8: Evaluation of Adm. and Wage Costs with Respect to the Volume of Activity for FACTOR and MusicAction, 1986-87 to 1997-98

	Administ. Costs	Salaries	# Requests Received	# of Requests Accepted	Adm. Costs / Vol.Activity (1)	Wage Costs./ Vol. Activity(1)
FACTOR						
1986-87	$514,612	$180,301	844	192	$1,450	508
1987-88	$574,396	$243,823	1,211	353	$1,012	$430
1988-89	$408,076	$185,953	790	261	$1,038	$422
1989-90	$465,709	$177,844	1,349	288	$842	$321
1990-91	$524,175	$191,831	1,055	391	$941	$344
1991-92	$527,743	$218,491	1,335	425	$809	$335
1992-93	$634,055	$250,010	1,188	429	$1,025	$404
1993-94	$662,337	$278,857	1,478	606	$803	$338
1994-95	$546,679	$282,731	1,900	574	$804	$312
1995-96	$510,217	$252,476	1,310	577	$571	$332
1996-97	$569,108	$266,253	1,634	533	$704	$329
1997-98	$870,470	$355,606	3,206	1,205	$510	$209
Total Years	$6,807,577	$2,864,176	17,296	5,836	$782	$329
Yearly Average Rate of Incr. 1988-96 (2)	1.8%	4.2%	5.2%	8.1%	-4.8%	-2.6%
MusicAction						
1986-87	$201,487	$92,537	235	119	$1,361	$625
1987-88	$330,679	$136,893	371	221	$1,279	$530
1988-89	$342,147	$165,059	279	134	$2,010	$970
1989-90	$385,448	$190,843	401	197	$1,554	$770
1990-91	$430,357	$200,281	485	215	$1,523	$709
1991-92	$501,378	$251,246	589	326	$1,280	$641
1992-93	$475,865	$224,695	618	304	$1,244	$587
1993-94	$392,632	$174,301	685	334	$931	$413
1994-95	$410,362	$205,288	683	329	$983	$492
1995-96	$482,063	$206,626	600	308	$1,265	$542
1996-97	$371,508	$218,943	653	376	$834	$492
1997-98	$511,177	$329,244	994	688	$669	$431
Total Years	$4,835,103	$2,395,956	6,593	3,551	$1,121	$556
Yearly Av. Rate of Incr. 1988-1996 (2)	2.0%	3.1%	7.7%	8.0%	-6.5%	-5.6%

Source: EEC Canada compilations from annual reports and financial statements for FMC, FACTOR, and MusicAction as well as activity databases provided by FACTOR and MusicAction

Note (1): The volume of overall activity is a synthetic index of the sum of requests received and beneficiary projects, weighted respectively in the proportions 1/4 and 3/4

Note (2): The annual growth rates were estimated using linear regression results.

Table D.8 demonstrates that the administrative costs of MusicAction and FACTOR in relation to the volume of activity tended to decrease over the years.

Using the activity index defined above, a linear regression analysis suggests that the ratio [administrative cost/ overall level of activity] tended to decrease at an average annual rate of –6.5% over the period 1988-89 to 1996-97[22] for MusicAction, and at a rate of –4.8% for FACTOR[23].

Indeed, costs were contained in relation to the general increase in activity for FACTOR and MusicAction. The number of requests received by MusicAction tended to increase by an annual average of 7.7% over this 10-year period, and the number of projects accepted increased by 8%, while administrative costs increased by an annual average of 2%. The number of requests received by FACTOR increased at an average annual rate estimated at 5.2%, the number of projects accepted at a rate of 8.1%, and administrative costs at a rate of 1.8%.

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[22] The years for the SRDP set-up and the budgetary readjustments, i.e. 1986-87 and 1997-98, were excluded.

[23] The annual average growth rates were estimated according to a calculation which consisted in dividing the coefficient of the explicative variable (i.e. the equivalent of the increase in the explained variable from one year to the next) by the average of the explained variable.

D.3. PARTICIPATORY LOANS AND REIMBURSEMENTS (FMC)

FMC administrators are responsible for choosing the most appropriate instruments to meet needs and for maximizing the efficiency of programs in the different components. They used two types of instruments: the "participatory loan" and "direct contribution".

Most of the assistance was granted in the form of participatory loans. From 1986-87 to 1997-98, about $36.3 million were lent for production projects, $15.3 million of which came from MusicAction and $21 million from FACTOR.

Amount Lent and Share of Production Costs: FACTOR

Loans granted by FACTOR were used to support the production of 1,480 albums. The average amount of these loans was approximately $14,200. However, the average contribution was distinctly lower during later years: it was around $10,000 from 1994-95 to 1997-98 (see Table D.9). This is explained by (i) the greater number of loans for production support during the latter period of the SRDP and (ii) the reduction in the total cost of projects.

The average annual number of loans for the period 1994-95 to 1997-98 (i.e. 188) was approximately two times greater than for the first 8-year period of the SRDP. Furthermore, over the whole 12-year period, the average production cost of projects supported by FACTOR with a participatory loan was about $24,300. During the first 2 years of the SRDP, the average cost for this was approximately $36,000 to $37,000. Over the following 6 years, it was distinctly higher overall, exceeding $50,000 for 4 years, during one of which it reached $60,470. However, the average cost of accepted production projects for FACTOR participatory loans later decreased to $26,000 in 1994-95 and 1995-96, and then to around $24,000 during the following 2 years (see Table D.10).

This explains that, despite FACTOR's low average contribution during the last 4 years, these loans financed on average a proportion of the total cost of production projects that was comparable to that of the 4 preceding years. Over 12 years, the contribution represented an average of 43% of project costs, with the yearly proportion fluctuating between 37% and 47% (see Table D.10).

Table D.9: FACTOR
Average and Total Contribution for Production Projects

Year	Number of Albums	Average Contribution	Total Contribution
1986	126	16,894	2,128,694
1987	113	15,559	1,758,178
1988	42	25,474	1,069,924
1989	94	16,225	1,525,158
1990	96	18,728	1,797,853
1991	77	21,534	1,658,083
1992	73	19,721	1,439,605
1993	107	17,566	1,879,581
1994	187	10,562	1,975,090
1995	175	9,987	1,747,800
1996	169	10,032	1,695,449
1997	221	10,349	2,287,189
Total	1,480	14,164	20,962,605

Table D.10 : Average Cost of Projects and Share of FACTOR Financing in the Total Cost of Projects, 1987-88 to 1997-98

Year	Average Cost of Production Projects ($)	Average % of the Total Cost Covered by Loans
1986 - 1987	35,861	47%
1987 - 1988	37,001	42%
1988 - 1989	60,470	42%
1989 - 1990	43,290	37%
1990 - 1991	50,369	37%
1991 - 1992	56,712	38%
1992 - 1993	50,973	39%
1993 - 1994	39,697	44%
1994 - 1995	26,311	40%
1995 - 1996	26,175	38%
1996 - 1997	23,504	43%
1997 - 1998	24,302	43%

MusicAction Loans

Loans granted by MusicAction were used to support the production of 784 albums from 1986-87 to 1997-98. The average amount of these loans was about $19,500, an amount that was about 38% higher than for FACTOR (see Table D.11). This average contribution varied from a minimum of about $11,900 (1st year) to a maximum of $26,400 (5th year).

For 7 years, from 1989-90 to 1995-96, the number of projects/albums receiving loan support was maintained at a relatively steady level of around 60 projects per year, with annual variations in average assistance per project (from $15,000 to $26,000) corresponding to variations in the annual total for loans. While the total amount of assistance through production loans increased markedly in 1996-97 and 1997-98, this increase was used to finance a greater number of projects so that the average contribution did not increase significantly.

Table D.11: MusicAction
Average and Total Contribution for Production Projects

Year	Number of Albums	Average Contribution	Total Contribution
1986	56	11,875	665,022
1987	87	18,187	1,582,232
1988	49	15,046	737,236
1989	62	21,501	1,333,045
1990	58	26,444	1,533,752
1991	61	20,288	1,237,565
1992	59	18,806	1,109,539
1993	60	21,844	1,310,653
1994	55	18,978	1,043,809
1995	58	23,564	1,366,693
1996	83	18,424	1,529,182
1997	96	19,592	1,880,792
Total	784	19,553	15,329,520

Loan Reimbursement: FACTOR and MusicAction

From 1986-87 to 1997-98, the loan reimbursements for production projects reached $3.37 million for FACTOR and $3.70 million for MusicAction, i.e. a total of $7.1 million for FMC (see Table D.12). These reimbursements make up a notable part of the revenues of the two executive agencies. This represents approximately 7% of the total contributions paid to FACTOR by the Department of Canadian Heritage and private radio broadcasters over the whole period. For MusicAction, it represents 12.5% of the total of these two contributions.

Table D.12: Amount of Loan Reimbursements for FACTOR and MusicAction 1987-88 to 1997-98

In Dollars	MusicAction	FACTOR	Total
1987	140,050	219,450	359,500
1988	267,875	209,998	477,873
1989	362,693	329,099	691,792
1990	382,757	272,827	655,584
1991	376,693	295,070	671,763
1992	569,350	303,497	872,847
1993	363,293	426,519	789,812
1994	323,038	329,058	652,096
1995	421,312	301,768	723,080
1996	357,757	356,510	714,267
1997	137,421	331,166	468,587
Total	3,702,239	3,374,962	7,077,201

From 1986-87 to 1996-97, the total amount of production support loans granted by MusicAction and FACTOR was approximately $13.5 million and $18.7 million respectively. The average reimbursement rate throughout the program was about 28% for MusicAction and 18% for FACTOR considering the total amount reimbursed by beneficiaries during the same period plus one more year (1986-87 to 1997-98).

The reimbursement rate for MusicAction was higher during the first half of the SRDP than during the second half (30% and then 25%). Conversely, the reimbursement rate for FACTOR, which was at 16% during the first half of the SRDP, went up to an average of 20% during the second half (see Table D.13).

Table D.13: MusicAction and FACTOR Loan Reimbursements[24], 1986-91 and 1992-96

Periods	Reimbursement n+1 ($)	Total Contribution n ($)	Ratio R/C
MusicAction			
1986-91	2,099,418	7,088,852	30%
1992-96	1,602,821	6,359,876	25%
Total	3,702,239	13,448,728	28%
FACTOR			
1986-91	1,629,941	9,937,891	16%
1992-96	1,745,021	8,737,526	20%
Total	3,374,962	18,675,417	18%

Since the participatory-loan reimbursement principle is based on sales ($1 or $0.75 per copy sold until full reimbursement), the rates obtained for annual reimbursements and reimbursements over several years simply indicate that most projects led to sales of a distinctly lower level than necessary to ensure a high reimbursement level. These results ensue directly from the participatory loan conditions and from the configuration of the loan portfolio. These loan conditions and portfolio serve firstly, as an instrument for reducing the financial risk of losses (by contributing to part of the losses), and secondly, as an answer to short or middle-term needs for financing or funds (ensuring a certain recovery of loans with successful recordings).

[24] The reimbursement ratios were calculated by relating the amounts that were reimbursed to the total amounts of loans with a one-year interval, i.e.: reimbursements (n+1) / loans (n).

Of the 1,480 loans that FACTOR granted during the first 12 years of the program, 3/4 were partially or totally reimbursed and 1/4 were not reimbursed at all. The proportion of loans without reimbursement (even partial) was, on average, larger over the first 5 years of the SRDP (between 20% and 33% according to the year), but it was distinctly smaller over the following 5 years (between 7% and 15%). The proportion of loans without reimbursement ($0) for 1996-97 and 1997-98 appears larger (24% and 59%), some albums had not yet been released and the payment period for others had not yet come to term (see Table D.14).

On average, over the 12 years, the loans granted by FACTOR that were not reimbursed (totally or partially) financed projects whose average cost appears markedly higher (+24%) than projects which led to a partial or total reimbursement. However, for 10 years out of 12, the average cost of projects that were not reimbursed was of the same order as or lower than the average cost of projects that were reimbursed (Table D.15). In the same sense, the average annual amounts of loans that were not reimbursed were generally comparable to or lower than the amounts of loans that were partially or totally reimbursed (10 years out of 12; see Table D.16).

These annual results as a whole do not indicate a truly significant correlation between project costs, the rate of financing/assistance per project, and reimbursement (partial or total) or non-reimbursement of projects. At the very most, they suggest that the average reimbursement results are markedly higher for loans approved by the board of directors than for loans with jury recommendations and the loan program for artists (insofar as the average cost of projects and the average amount of loans tend to decrease from one program to the other).

Table D.14: Proportion of Projects with Partial or Total Reimbursement and with No Reimbursement, FACTOR, 1987-88 to 1997-98
Proportion of Projects in %

Date	Partial or Total Reimbur-sement	No Reimbur-sement
1986 - 1987	74%	26%
1987 - 1988	67%	33%
1988 - 1989	71%	29%
1989 - 1990	78%	22%
1990 - 1991	80%	20%
1991 - 1992	92%	8%
1992 - 1993	93%	7%
1993 - 1994	92%	8%
1994 - 1995	87%	13%
1995 - 1996	85%	15%
1996 - 1997	76%	24%
1997 - 1998	41%	59%
Total	75%	25%

Table D.15 : Average Production Cost of Participatory Loan Projects, FACTOR, 1987-88 to 1997-98

Year	All Projects with Loan	Projects with Partial or Total Reimbursement (1)	Projects with No Reimbursement (2)	Diffe-rence (1)-(2)
1986 - 1987	35,861	37,138	32 ,263	4,874
1987 - 1988	37,001	40,246	30,335	9,912
1988 - 1989	60,470	58,150	66,268	(8,118)
1989 - 1990	43,290	50,473	18,321	32,152
1990 - 1991	50,369	55,210	30,752	24,458
1991 - 1992	56,712	57,497	47,418	10,079
1992 - 1993	50,973	50,571	56,445	(5,875)
1993 - 1994	39,697	40,816	27,515	13,300
1994 - 1995	26,311	26,367	25,931	436
1995 - 1996	26,175	27,576	18,149	9,427
1996 - 1997	23,504	24,436	20,500	3,936
1997 - 1998	24,302	21,225	26,416	(5,192)

Table D.16 : Average Amount of Production Support Loans, FACTOR, 1987-88 to 1997-98

Year	All Projects/Loans	Loans with Partial or Total Reimbursement (1)	Loans Not Reimbursed (2)	Difference (1)-(2)
1986 - 1987	16,894	17,346	15,622	1,724
1987 - 1988	15,559	17,007	12,585	4,422
1988 - 1989	25,474	25,613	25,127	486
1989 - 1990	16,225	18,783	7,333	11,450
1990 - 1991	18,728	21,054	9,301	11,753
1991 - 1992	21,534	21,772	18,715	3,057
1992 - 1993	19,721	19,389	24,232	(4,843)
1993 - 1994	17,566	18,106	11,689	6,417
1994 - 1995	10,562	10,615	10,202	413
1995 - 1996	9,987	10,666	6,096	4,570
1996 - 1997	10,032	10,411	8,812	1,599
1997 - 1998	10,349	9,174	11,157	(1,983)

The unavailability of precise and sufficiently complete data regarding reimbursements and sales per album according to program (for albums with Canadian content/artist and SRDP/FMC albums) prevents an in-depth analysis of these results from being carried out, which would require the profile of loan distribution, reimbursements per project according to programs, and sales according to albums.

Table D.17 suggests how a general profile for the loan portfolio and reimbursement results should be presented. It integrates the three following programs offered by FACTOR: independent artists, jury recommendations (FACTOR loan) and DBA. The reimbursement results for the three programs together correspond to the actual results[25].

Furthermore, it better explains the extent to which the overall reimbursement results presented in Table D.13 include the significantly different results for each of the programs. It also better explains the extent to which the average sales levels of albums per programs can differ from the average sales levels needed to ensure high levels of reimbursement.

It would be useful and necessary for the SRDP information systems and executive reports to provide this kind of information about loan portfolios. Furthermore, it would be necessary to clarify the rationale for this participatory loan instrument with respect to the relation between the evolution of the beneficiary's financial situation and the corresponding levels of reimbursement/non-reimbursement (grant). This would be related to the total cost of projects and the percentage of SRDP financing.

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25 The number of loans and the total amount of loans per program that are given in the example correspond approximately to the actual 1997-98 data for FACTOR. The average reimbursement rate for the 3 programs together was set around the same level as the average rate for FACTOR over the last years. The reimbursement rates for each of the programs were set arbitrarily, yet they follow a gradation which reflects the fact that businesses' qualification for different programs takes into account a formula based on results which normally establishes a gradation of average reimbursement results for the independent artist program, the loan program with jury recommendation, and the DBA program (II and I). Furthermore, the total number of loans without reimbursement corresponds to the total proportion of loans for the three programs together, which corresponds to the average rate that has been observed by FACTOR in the past. The same figure was set arbitrarily for each of the programs, by considering the fact that the proportion of projects without reimbursement was smaller at the DBA level and for FACTOR loans. The number of loans with total reimbursement was set arbitrarily (5.3% of the total number of projects), but established in such a way so as to represent a markedly bigger share of DBA loans (12.8%) than in the case of loans with jury recommendations (FACTOR Loan, 5.7%) and loans for independent artists (3.5%). All other figures in Table E.45 are deduced from preceding hypotheses.

Table D.17 : Example of a Presentation for Loan Portfolio and Reimbursement Results Per Program

PROGRAMS	# of Loans	Total Amount	Average Amount (1)	Total Reimbur-sement	Reimbur-sement Rate	Average Reimbur-sement	Average # Copies Sold (2)	Average Sales Revenues	Average Total Cost Projects
All Loans									
Independent Artists	172	$1,204,000	$7,000	$120,400	10.0%	$700	? (more than 700)	? (more than $5,635)	$20,000
Factor Loan	70	$1,330,000	$19,000	$266,000	20.0%	$3,800	? (more than 3,800)	? (more than $30,590)	$44,186
DBA	39	$936,000	$24,000	$280,800	30.0%	$7,200	? (more than 7,200)	? (more than $57,960)	$60,000
Total	281	$3,470,000	$11,500	$667,200	19.2%	$2,374	? (more than 2,374)	? (more than $19,114)	
Loans Without Reimbursement									
Independent Artists	60	420,000	$7,000	$0	0.0%	$0	0	$0	$20,000
Factor Loan	9	171,000	$19,000	$0	0.0%	$0	0	$0	$44,186
DBA	1	24,000	$24,000	$0	0.0%	$0	0	$0	$60,000
Total	70	$615,000	$8,786	$0	0.0%	$0	0	$0	
Loans With Partial Reimbursement									

Independent Artists	106	742,000	$7,000	$78,400	10.6%	$740	740	$5,954	$20,000
Factor Loan	57	1,083,000	$19,000	$190,000	17.5%	$3,333	3,333	$26,833	$44,186
DBA	33	792,000	$24,000	$160,800	20.3%	$4,873	4,873	$39,225	$60,000
Total	196	$2,617,000	$13,352	$429,200	16.4%	$2,190	2,190	$17,628	
Loans With Total Reimbursement									
Independent Artists	6	42,000	$7,000	$42,000	100.0%	$7,000	? (more than 7,000)	? (more than $56,350)	$20,000
Factor Loan	4	76,000	$19,000	$76,000	100.0%	$19,000	? (more than 19,000)	? (more than $152,950)	$44,186
DBA	5	120,000	$24,000	$120,000	100.0%	$24,000	? (more than 24,000)	? (more than $193,200)	$60,000
Total	15	$238,000	$15,867	$238,000	100.0%	$15,867	? (more than 15,867)	? (more than $127,727)	

Note: (1) corresponds to the number of copies to be sold for 100% reimbursement, and comparatively, (2) corresponds to the number of copies sold.

D.4. ORGANIZATIONAL FRAMEWORK

D.4.1 Administrators of the SRDP Components

During the first 5 years of the SRDP (1986-87 to 1992-93), responsibility for executing the different components of the SRDP was distributed thus:

i) **the Department of Canadian Heritage** was responsible for

- "business development"
- "the distribution of specialized music";

ii) **the Canada Council** for "the production of specialized music"; and

iii) **FACTOR/MusicAction/Canada (FMC)** for the other components, i.e.

- "sound recording",
- "videos",
- "syndicated radio programs",
- "foreign tours".

FMC components represented about 4/5ths of the program's annual budget over the years. The Canada Council component represented 5% of it, and Canadian Heritage components represented the remainder (14% or 1/7th).

Beginning in 1993-94, the two components which had been run previously by Canadian Heritage, as well as a new "foreign marketing" component, became the responsibility of FMC,. Thus, FMC managed about 94% of the program's total annual budget, with the remaining 6% managed by the Canada Council.

During the structural modification of the SRDP per component in *March 1997*:

- **Canadian Heritage** took charge of a new "support for the development of federal policies" component (4% of the total budget);

- the administrative responsibilities of **FMC** were broadened with the creation of a major "marketing and touring" component which was extended to include promotion and marketing on a national scale. Audio and video production were also grouped together in a large component, with FMC still managing the "business development" and "distribution of specialized music" components (i.e. their overall administrative responsibilities represented 90% of the SRDP's total annual budget);

- **the Canada Council** continued to run the "production of specialized music" component (6% of the total budget).

To take a wider view of its role in the development of the Canadian record industry, it should also be mentioned that, along with its SRDP management responsibilities and the components that it ran directly, Canadian Heritage also administered a program for "contributions to Canadian service organisms in the sound recording domain".

FMC's administrative responsibilities for certain components are defined in the contribution agreements established with Canadian Heritage. The above-mentioned changes, affecting the administration of different components, were defined in the October 1993 and March 1997 agreements. Those signed in March 1989 and October 1991 introduced changes to the initial agreement (September 1986), consisting mostly in adjusting certain management parameters and making them more precise; for example, the contents of executive reports, which were relatively brief during the first years of the program.

FMC is a non-profit organization with the vocation of supporting the development of the Canadian sound recording industry. Canadian Heritage desired the creation of this private sponsorship organism so that the components managed by the private sector would come under a single national executive agency. FMC proceeds from the grouping of **FACTOR**, a private sector initiative which has existed since 1982, and **MusicAction**, created in 1985. These two non-profit organisms have the vocations of serving the English-language and French-language segments of the Canadian record industry respectively.

The contribution agreements between the government and FMC specify that the boards of directors of FMC and its constituents (FACTOR and MusicAction) must be made up of representatives of "the diverse sectors in the sound recording and radio broadcasting industries", with representatives of the former playing a dominant role, occupying a majority of seats.

The ministry's apparent goal in specifying this clause was to have the radio broadcasting world directly participate in the management structure, to improve collaboration between the latter and the sound recording industry, especially given the importance of the SRDP's objective to improve the distribution of Canadian recordings. Radio broadcasters were a party to FACTOR since its creation (4 years before the set-up of the SRDP), as they were to MusicAction (during the program's gestation period). Moreover, FACTOR and MusicAction receive significant contributions from private sponsors in the radio broadcasting domain (see section D.1).

Contributions allocated to FMC by the ministry are ceded back to FACTOR (60%) and MusicAction (40%) according to a pre-established distribution. These two constituent organisms act as "executive agencies", and FMC acts as an intermediary structure which channels the ministry's contribution.

The contribution agreement is established between the ministry and FMC and not with FMC constituents, thus FMC is responsible. The formula reflects the idea of FMC as a framework structure or orientation platform, or at least as a co-ordinator and harmonizing agent.

D.4.2 Sharing of Administrative Responsibilities and Components' Allocation Rational

The private sector, specifically that of the record industry, has always played an essential role in the organizational plan of the SRDP as administrator of its main budgetary components. A 1985 Canadian Heritage technical document about the initiatives to be considered in the sound recording industry suggested this principle in referring to FACTOR/CTL, which had existed since 1982. Concerning "measures of encouragement for the production of sound recordings and radio programs", this document reported on:

- *the decrease in the number of sound recordings with Canadian content released on the market;*
- *the significance of the FACTOR/CTL initiative as a support fund;*
- *the significance of widening this support formula to include the financing of French-language sound recordings;*

- *the possibility of the State's financial participation in these initiatives (allocating federal funds to encourage the production of 150 to 175 musical recording projects);*

- *the marked growth of the quality and quantity of sound recordings with Canadian content accessible to radio broadcasters, and of new prospect possibilities for Canadian artists, expected through this assistance;*

- *the initiative being considered to devote federal funds to the development of radio programs to complement existing programming.*

Therefore, 1 to 2 of the 4 components were initially FMC's responsibility, i.e. "sound recordings" and "syndicated radio programs". One of the two other components, i.e. "videos", was also among the initiatives considered in the 1985 document, which referred to the *"praiseworthy VideoFACT initiatives, managed by CIRPA"*. The fourth component, "international touring", met the previously identified need to initiate support for international marketing due to the "lack of funds to finance foreign tours". The 1985 document did not indicate the type of management considered in this case, but FMC was probably chosen because the clientele targeted by this component was the same as that of the production components. Moreover, dealing with foreign marketing support for albums was fully justified according to a coherent and global perspective which allows support granted to production.

Since the SRDP's main vocation, according to its budgetary structure per component, is production support, the record industry's private self-management model (considered in the FACTOR/CTL example) was therefore going to be a major part of SRDP management. However, it should be mentioned that the 1985 document did not yet indicate this very clearly.

For instance, concerning the initiative for "the development of the sound recording industry" to address the problem of the lack of available loan capital and actual capital, the document suggested setting up *"a fund to meet the financial needs of the Canadian sound recording industry, in particular those of production companies, which would be accessible through the intermediary of federal and provincial institutions"*. In this case, the fund, according to the terms used, had to generate a substantial amount of new loan or actual capital each year, to help 15 to 20 record companies reach financial maturity, and allowing main investors and financial institutions to acquire solid experience with Canadian production industries, while at the same time creating long-term relationships between them.

Initially, the design of the SRDP's organizational framework seemed to conform to an implicit model in which direct album production and marketing support for companies (such as record companies, producers, artists/artists' managers, music publishers, etc.) were the responsibility of the industry itself to manage. It even appears as though the limits of this model were taken into account:

(i) for interventions more directly concerned with the founding elements in the Canadian record industry and with a collective nature or impact, such as big promotional events, professional associations, and sector-based research (at the meso level), as well as those concerned with the development of company capacities (management, training);

(ii) for interventions dedicated to supporting types of music and musical creation initiatives without a commercial vocation or immediate commercial potential, which are considered an integral part of the burgeoning diversity of Canadian musical expression, enriching the Canadian cultural heritage and its influence.

This is certainly why Canadian Heritage took charge of the "business development" component during the SRDP set-up and why public management took charge of the two specialized music components.

The running of the "production of specialized music" component by the Canada Council for the Arts, and the "distribution of specialized music" by Canadian Heritage, seem to conform to the vocation of both of these institutions, considering the importance of the more cultural and social aspects of support management in the production of specialized music, as well as the more economic and commercial aspects of its distribution.

However, neither the object nor the nature of a component or program determines who should run it in the public or private sector. The determining factors are the technical and human capacities (experience, basis, resources) required to manage the component efficiently, a capacity to reach the clientele, the risks of conflicts of interest and the means available to control them, a capacity to absorb/run the component, the possibilities of complementarity, scale economies or efficiency profits, administrative costs, etc.

These criteria were met by Canadian Heritage in running the "business development" component. At first, FMC had neither the experience nor the absorption capacity or arbitration mechanisms necessary for supporting large-scale events or management training activities. This situation would nevertheless evolve.

The handover of the "business development" component from Canadian Heritage to FMC took place in 1993-94. After several years of experience, the risk in allowing FMC agencies to absorb an additional program were certainly lower. Also, the agencies' operating experience could provide a better guarantee that FMC, FACTOR, and MusicAction structures had the capacity to efficiently and "harmoniously" manage support for large-scale events, such as stimulating the part of the component dedicated to the development of management capacities in companies, and the training of human resources. However, the absence of precise information about the first years of the component's execution prevent an analysis of how the component's handover might have led to changes in the allocation of funds and the efficiency of doing so.

Similarly, it is not necessarily efficient to separate management responsibilities for the production and distribution of specialized music. In terms of supporting artists' career development, centralizing production management and distribution support seems more appropriate.

The administration of the "distribution of specialized music" component by Canadian Heritage or FMC alone could be justified if one or the other has deeper knowledge of or an established interface with the targeted clientele and potential beneficiaries, or if it has special experience in the implementation of an approach and the instruments required. In this case, certain distributors in this component are also potential beneficiaries (record companies) for production and marketing support offered by FMC; however, the issues and networks involved in the marketing and distribution of specialized music cannot be reduced to those of more popular and commercial types of music.

Therefore, the advantages of sole management by FMC or Canadian Heritage could not be demonstrated with certainty. Moreover, compared to its other activities, this component represents a minor FMC activity. Furthermore, this is without taking into account the fact that separate management of production and distribution support for specialized music does not favour a coherent approach.

D.4.3 The Self-Management Framework of the Record Industry

Representation of the Record and Radio Broadcasting Industries

One of the characteristics of the SRDP as a sector-based support program is the key role played by the record industry's self-management formula. According to the contribution agreements, representatives of the record industry have to be the majority on the boards of directors for FMC, FACTOR, and MusicAction. The boards must also include representatives from the radio broadcasting domain (who are required to contribute as sponsors for FACTOR and MusicAction financing; see section D.1).

More specifically, the agreements refer to representatives from different sectors of the record industry (1986). Since 1989, the agreements have specified that the record industry includes (without being limited to) record companies and producers, video producers, music publishers, performing artists and musicians, singer-songwriters, managers, and promoters. In the 1997 agreement, distributors and professional associations were added to this list.

The FMC board of directors has 15 members. During the SRDP set-up, when FACTOR had been in operation since 1982 and MusicAction had just been created, 11 of the 15 directors were part of FACTOR. In 1990-91 and in 1991-92, the number of FMC directors representing MusicAction went from 4 to 5 and then to 6, with the share of seats for FACTOR and MusicAction corresponding to 60% and 40% of the public contribution allocation.

In accordance with the contribution agreements, representatives of the record industry were always a majority on the boards of directors for FMC, MusicAction, and FACTOR (except for FACTOR in 1997-1998: 50%). However, although they were a minority, radio broadcasters were always very well-represented on the boards of directors for FMC (7 members out of 15 / 47%), FACTOR (40%-45%), and MusicAction (38%).

Record companies and producers always constituted the majority of the record industry representatives on the FMC board of directors (on average 60%), with different sectors of the industry represented each year by distributors, music publishers, artists (singer-songwriters/performers), and agents. The domination of record industry representation by record companies and producers is wider on FACTOR's than on FMC's or MusicAction's boards of directors (artists having more representation among MusicAction directors in the past).

On the FMC board of directors, the representation of the radio broadcasting industry was relatively stable, due to the steady participation of a core of major communication/radio broadcasting groups. Close to 80% of the 73 representatives of radio broadcasters who served on the board were drawn from the 5 major communication groups (CHUM Limited, Standard Radio, Rogers Broadcasting, Radiomutuel, and Telemedia Communications). Except for the two representatives from the distribution and three from the production-marketing sector (CIRPA and 2 companies), the record industry's representation on FMC's board of directors was more often renewed through a change in representatives.

The boards of directors for FACTOR and MusicAction share more or less the same characteristics. A steady core of FACTOR members is made up of representatives of 4 communication/radio broadcasting groups, CIRPA participation, and the participation of a distribution group. On MusicAction's board, this steady core is made up of 3 communication/radio broadcasting groups and two distribution representatives. In all, FACTOR's Board of Directors is currently made up of representatives from 4 communications-broadcasting groups, representation from the CIRPA, representation from the CMPA, and representation from 3 other music industry groups. MusicAction's Board is composed of 5 communications-broadcasting groups, representation from the ADISQ, representation from the SPACQ, as well as from a distributor and a retail outlet.

In the contribution agreements, the clauses concerning the professional composition of the boards (representation of different sectors of the record industry and the radio broadcasting industry) seem to convey, on behalf of Canadian Heritage, the idea that:

(i) the management of FMC components required a relatively global perspective on different components and aspects of the "sector-based cluster" of the record industry (including its relationship with the radio broadcasting sector),

(ii) it was appropriate to ensure that this perspective be taken into consideration through the composition of boards of directors (according to general framework parameters which were open, however, rather than strictly defined).

The participation of radio broadcasters can be explained by the following factors:

(i) the de facto situation that FACTOR/CTL, as an experimental reference point, support model, and element of the SRDP's management, was created and developed through the initiative of radio broadcasters,

(ii) doubts about whether the components concerned could be managed through collaboration and concerted decisions, and

(iii) the favourable financial participation commitments of radio broadcasters at the beginning, and, even if it was relatively unstable, the maintenance of this contribution over the years.

It should be mentioned, when considering the composition of these boards of directors, that the radio broadcasting industry has always represented a strong minority as compared with the representatives of all the different components of the record industry, and that it included an important stable core of major representatives of the industry.

It is necessary to question the assumption of the key role played by the radio broadcasting industry taking into account in development conditions for the Canadian independent record industry, as well as the need to have inter-industrial consultation structures to orient SRDP activities, and therefore the need for such a wide representation of radio broadcasters on FMC, FACTOR, and MusicAction boards of directors (rather than through other related mechanisms).

In addition, given the variety of components in the industrial organization of the record industry that the agreements refer to as "its different sectors", and considering the dimensions of marketing other than radio and television broadcasting in Canada, the goal of widening the representation of the record industry is not easy. Finally, comments were made about radio broadcasters on the boards of directors; their real participation at meetings was less sustained and regular at times[26].

The present study did not include a quantitative analysis of attendance at meetings of the boards of directors.

The opening of the clause is made ambiguous by the requirements for representation "of different sectors of the record industry". Overall, the record companies and production "sector" was most strongly represented most on the three boards (notably the FMC board; managers and artists had a stronger presence on the FACTOR and MusicAction boards respectively). Thus, the composition of the boards of directors reflects the vision that prevailed during the preliminary work for the SRDP set-up (a vision oriented towards development and industrial consolidation as means of increasing the quantity and improving the quality and accessibility of sound recordings with Canadian content).

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[26] The present study did not include a quantitative analysis of attendance at meetings of the boards of directors.

However, specifying simply that the boards had to represent "these different sectors", the agreements' clause only ambiguously suggests that these "sectors" are represented equally (this, incidentally, would be consistent with an approach more explicitly privileging artists' development).

The SRDP and its components managed by the private sector play a key role in policies, regulations, and programs aimed at contributing to the development of the Canadian record industry, at the level of both the federal and provincial (for certain provinces) governments. Thus, it is only a constituent part and has neither the vocation nor the capacity to influence all aspects. Therefore, it cannot claim to act as an inter-sector consultation platform and take all concerns, interests, and professional needs into consideration though a representation/participation framework for all the different sectors of the record and radio broadcasting industry. The agreements provide a framework for the representation of the record/radio broadcasting industry and different sectors of the record industry.

The allocation parameters accepted by the agreements, which the management agencies had to take into consideration, included different types of music, their sub-markets, specialized companies, and regional distribution. However, these same parameters did not apply to representation on the boards of directors. Nevertheless, production and the classical music market, for example, represent stakes and an assistance allocation channel which were more important than those related to music publishing (which had more direct representation on the boards of directors) or other sectors of intervention in the past.

In this instance, the assistance allocation profile according to types of music and regions takes the dimensions expressed in the agreements into account (see sections C.5 and C.6). The management of MusicAction and FACTOR ensured respect for these dimensions, which were part of their mandate, without being supported by a significant direct representation on the boards of directors. However, comments made during interviews indicated that decision-making processes at the level of the boards of directors were not always as open as they should have been with respect to the consideration of these dimensions.

As planned, the range of sector-based categories represented at FMC influenced the structure of programs as well as their diversity and evolution. However, without an adequate management framework (see section D.5), "representation" alone did not allow FMC to ensure the complementarity and relevance of programs.

D.5 INSTRUMENTATION AND MANAGEMENT PRACTICES

This section of the report focuses on different aspects of the approach, methods, instrumentation, and management practices of the different administration organs of the components, which were the subject of the first observations made during the study of evaluation work. Different improvements were made over the years to the framework and management practices of the SRDP. These improvements were mainly directed towards operational rather than strategic aspects of the management of federal public funds.

D.5.1 Public Management Perspective

Public management respects certain rules and principles aimed at ensuring that the allocation of resources to a program is justified and that these resources are used optimally for the program's purposes. The evaluation exercise of the SRDP is part of this. Whether public funds are used by a public organization or a private execution agency, the same general principles apply to the management of public programs.

Over the last ten years, the approaches and management methods adopted by the SRDP have evolved greatly. Notably, since 1996, the Treasury Board Secretariat (within the framework of its budget expenses reform project) has promoted "management focused on results", the responsibility of using productivity indicators according to a more systematic and continuous process of follow-up, evaluation, and adjustment.

One of the support tools used in the application of this procedure is to have a "performance framework" which defines and organizes information about the program. The MPC began working out such a performance framework in 1998.

The "performance" framework allows a good definition of expectations and responsibilities given the objectives, and serves as a reference scale for following obtained results and verifying short-term, middle-term, and long-term performance on a regular basis (three-monthly, annually, three-yearly, etc.).

An important aspect of this management framework is that it pertinently defines the nature of the information required in order to evaluate progress.

The measurement of results/performance indicators generally requires the gathering of information and statistics which are not limited to those taken directly from the project's activities (its assistance and the activities it thus supports), but include their results for beneficiaries. They allow the evolution of broader situations to be followed, i.e. those in which changes and impacts are expected in accordance with the program's objectives.

D.5.2 Instrumental Framework of SRDP Management

Understanding Management Requirements

Fundamentally, it is the responsibility of Canadian Heritage to prove that the program makes efficient use of the resources dedicated to it in accordance with its general cultural policy and the collective interest that the policy aims at satisfying. This responsibility and its implications for management on different levels (targeted clientele, management/administration) have not always been well understood for various reasons.

First of all, certain individual participants feel that the resources allocated to the program are due to private participants by right, without public intervention in the way in which these funds are allocated or their orientation. The public's responsibility is limited according to this view to supervision and control, to ensure that these activities do not lead to fraudulent practices, and that they are in accordance with the pre-defined orientations.

Those who express such an opinion are also inclined to think that their category of participants plays a particularly central role in the development of the Canadian sound recording industry, and that their interests converge with those of the public in cultural matters.

An argument which is often made is that the industry's operators (individually and collectively) are in a better position to identify obstacles to their development, and therefore that they are better able to conceive and implement the means to loosen these constraints.

Instrumental Framework of FMC Management

Since the beginning, the industry has been closely associated with the processes of elaboration and implementation of the program. Furthermore, the program's management framework entrusts its private management, which represents the independent sector of

the Canadian record and broadcasting industries, with important responsibilities. Notably, it must elaborate *programs within the components*, which is a highly strategic role. Each program's strategic intervention (types of targeted beneficiaries according to eligibility conditions, choice of instruments, support conditions, etc.) is expressed in the structures of the programs, their design, their budget allocations, and their internal allocation parameters.

The generality of the components' definition and the wide responsibilities of their management establish a relatively flexible framework for management. This formula is in accordance with the need for a management framework sufficiently flexible to allow adjustment of interventions at any given moment to solve problems, introduce desirable improvements and innovations, and carry out the modifications required by the evolution of the context and obtained results. Thus, this formula matches the present approach of a public management which favours a more continuous evaluation, adjustment, and improvement process. However, there is no cause and effect relationship between this flexibility and the nature of the program's execution agency, i.e. whether it is part of the private (including the industry being considered) or public sectors.

However, the efficient implementation of this flexible approach requires appropriate means and instruments for following the results. The perspective and requirements of public management is the second subject about which the private management agencies of the SRDP seem to lack comprehension. This situation prevailed because the agreements which define their responsibility to report the progress of their activities were not explicit enough. Whether a component is run by the public or private sector has little importance in terms of these rules for the management of public funds. A well-defined performance framework needs to be set up in both cases.

The management framework established when the program was implemented in 1986 defined the general objectives of the program and its different components, as well as their budgets. Apart from these elements, the first contribution agreement between Canadian Heritage and FMC stipulated that *"FMC is required to provide the Department of Communications with the necessary information to evaluate the contribution's profitability while the present agreement is being applied"*. However, the nature of this information was not specified, causing difficulties for FMC in collecting and preserving the right kind of information, as well as choosing the type of presentation to adopt.

The first annual reports only provided direct and basic information, so in the second agreement it was necessary to stipulate that FMC would provide the Department of Communications with an annual report which would *"include the year's statistics as well as an analysis of them showing the allocation of funds per project, component, province,*

territory, language, musical category, recipient, total amount of the contribution or loan, and the information related to loan reimbursements. The report includes [...] an analysis of the fundamental successes." These indicators should allow the distribution of support to be verified in accordance with allocation considerations mentioned in the agreement. In this respect, there were no significant changes in ulterior agreements.

Over the years, in particular the last few years, information and statistics have been better documented in FMC annual reports. However, the information and analyses requested and provided have not always included the many key details which would allow the fund allocation profile to be clearly defined and understood, and the efficiency of management to be evaluated. Furthermore, they do not always allow the results and progress in terms of targeted beneficiaries to be defined. In the absence of an performance framework, the same considerations apply to the management of the program's different components.

The pertinence of the design of programs within the components (for instance, the type and calibre of instrument used) and their efficiency is generally not documented. In the absence of an adequate framework of results and imputability, the changes introduced in this area could be the result of any of several circumstances or special considerations. It should be noted that, in the absence of indicators of desired results, the management framework tends to favour inertia and limits positive changes by being inconducive to innovation.

These observations correspond to one made by the Department's Corporate Review Branch in a February 1997 report. Concerning MusicAction's management framework, it was observed that *"there was an absence of particular objectives in terms of expected results which is a prerequisite to the choice of types of financial assistance which should be privileged, as well as to the eligibility criteria"*[27]. The same observation applies to FACTOR.

Implementing a management framework more appropriate to SRDP demands would require certain changes to personnel training and information systems.

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[27] " Review of FACTOR's Management Framework", General Management of Ministerial Reviews; February 1997

Instrumental Framework of Components Managed by the MCH and the Canada Council for the Arts

The same observations and general diagnostics which can be made of FMC and its constituents are applicable to the instrumental framework of the components run by Canadian Heritage and the Canada Council for the Arts throughout the duration of the SRDP.

Considering its initial inadequacies, the instrumental management framework was not really developed over the first 10 years, despite the competence, seriousness, professionalism, dedication, and integrity of the management, as well as the conditions which could have influenced priorities. However, for the last two years ago, the development of initiatives to address this has been an essential priority for management.

Along the lines of the 1998 initiative to develop a framework of results, and within the general framework of SRDP management, Canadian Heritage is examining conditions in which "*the different statistical information sources could be collected and used to provide the MCH periodically with information / measures concerning the pertinent results related to the impact of the SRDP*", with the clarity offered by the present evaluation. To this end, the collection activities carried out in collaboration with the ADISQ and The Record related to the needs of the present evaluation (i.e. the survey with companies and the use of Statistics Canada data), provide very useful indicators. Furthermore, the gathering of information from and with the collaboration of MusicAction and FACTOR also opens the way to the development and the implementation of an adequate framework of results for the SRDP.

The "support for the development of federal policies" component could benefit from developing its instrumental framework as a global research program, which would help highlight its structure, real priorities, and the expected results. As a "research arm", this component has the important role within the general SRDP operation of shedding light on its strategic management.

In the same way, and following the approach initiated in 1998, it is necessary to clarify the intervention strategy of the production of specialized music component run by the Canada Council for the Arts in view of the particular problem related to the domain, and to develop the instrumental framework based on specific indicators which allow a follow-up study of results.

General Observation

The absence of a framework of results and imputability (performance framework) was the SRDP's main deficiency until last year. It is necessary to pursue its development so that it can be an operational tool as soon as possible.

Since its implementation, the SRDP has preserved important invariants, for instance its approach per project or the types of instruments used, while deficiencies in the framework of results and imputability, as well as follow-up systems, prevent effective evaluation of the validity of continuing in the same direction or of proceeding to make modifications.

During the first 10 years, important changes were notably focused on the widening of artists' access to the program (FACTOR loan program) and to recognized artists (MusicAction)[28]. Furthermore, the major modifications in 1997 (components and budget) were carried out according to the guidance of an "external" workgroup rather than "naturally" emerging from an internal process of the program's management operation.

On the whole, the organizational management framework seems to have favoured the pursuit of a status quo, not optimal in terms of allocative efficiency, rather than contributing to a favourable dynamic of adjustment and innovation (which could be expected from this combination of a broad private self-management and that of Canadian Heritage and the Canada Council for the Arts)[29]. On the contrary, the steadiness of participation per "sector" seems to have encouraged greater strictness, a drawback when adapting to new dynamics in the Canadian sound recording industry.

Current FMC Management

The above-mentioned report by the general management of ministerial reviews (February 1997) has already observed on the subject of the more technical and traditional aspects of organization and management practices that the two organizations had adopted "healthy management practices" with "systems and procedures which favour the effectiveness and efficiency of operations" (financial management, administration of requests for assistance, and financial management of requests for assistance). This evaluation subscribes to that assessment.

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[28] In one form or another, assistance to 'labels' via 'DBA' type programs has been offered since 1986: thus, the main changes in fact deal with expansion on the 'artists' side.

[29] This does not mean that FACTOR and MusicAction have not reviewed their programs annually and proceeded to make various changes and improvements. It is simply an affirmation that, regardless of what the changes were, FMC – which can choose its types of instrument – has always kept to the same types of instrument and has not, consequently, developed programs on bases other than an individual projects/albums footing.

E. IMPACT OF THE SRDP

This part of the report aims at evaluating the SRDP's impact on the development and reinforcement of the Canadian sound recording industry. It is divided into four sections. The first attempts to define how far the Canadian sound recording industry has in fact progressed towards attaining the program's general objectives as to the accessibility and standing of Canadian-content products, and the rate of growth of the Canadian-owned segment. The second section completes this analysis by examining the progress of Canadian-content singles and albums on radio and sales charts, and the positioning among them of albums that received SRDP support. The third section studies the SRDP's effect from the point of view of its contribution to the variety of musical styles in terms of regional dimensions. Last, the final section suggests possible ways of systematizing the collection of statistical data for later use in following up on program results in a more on-going or regular fashion.

E.1. EVOLUTION OF THE CANADIAN RECORD INDUSTRY WITH RESPECT TO THE SRDP's OBJECTIVES

The key indicators help chart the evolution of the Canadian record industry in these areas:

(i) the improvement of access to recordings with Canadian content (production, sales, share of the market, diversity of types, etc.), and

(ii) the development and reinforcement of the independent sector under Canadian control (structure according to the size of companies, production of albums with Canadian content, sales, share of the market, profitability, risk, etc.; this last analysis is done in two stages:

- the first uses indicators compiled from sectorial data from Statistics Canada;
- the second shows the results of an additional survey done for this evaluation study by EEC Canada (EEC Canada) Inc. among Canadian-owned companies (financial position, profitability, and risk).

E.1.1 Evolution and Positioning of Records with Canadian Content and Canadian Artists

One of the program's objectives is to increase the number of sound recordings with Canadian content. The large share of the program's total budget allocated to the "sound recording production" component demonstrates the importance SRDP designers assigned this objective. Furthermore, improvement of access to albums with Canadian content, which is a general objective of the SRDP, should ultimately be expressed through an improved positioning of these products in terms of market share.

Considering the limited quality of available statistics, measures of results cannot be considered precise indicators. However, they validly represent the evolutionary trends over long periods. They are unable to define the smaller changes, but are able to indicate more marked changes.

According to Statistics Canada data, the number of albums with Canadian content released was approximately 66% higher in 1993-94 than in 1985-86, and sales more than doubled (x 2.7). The growth was significant for both French-language recordings and English-language recordings. Furthermore, the growth took place during the 1990's.

However, trends in the production of albums with Canadian content seem to correspond to the trend for all Canadian releases. The same is true for sales (according to Statistics Canada data), which tripled from 1985-86 to 1993-94 for both albums with Canadian content (x 2.7) and total album sales (x 2.9).

According to IFPI data, total album sales in Canada doubled rather than tripled for these two same years[30], but this only confirms that if production and sales of albums with Canadian content experienced a definite growth since the set-up of the program, it was part of the more general trend in market evolution.

According to Statistics Canada data, there is no evidence of noteworthy improvement in the positioning of albums with Canadian content in terms of releases and sales (see Table E.1). However, the data suggests that there was a slight improvement in the market share, associated with a markedly smaller share in terms of releases (which has a positive aspect, i.e. that the average sales per new album with Canadian content released on the market increased more than sales of other albums in the context of market growth).

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[30] Incidentally, this source traces a significant decline in sales in 1997, just as Statistics Canada did.

Table E.1: Share of Albums With Canadian Content in Terms of Releases and Sales

SOUND RECORDINGS (1) WITH CANADIAN CONTENT (2) CANADIAN ARTISTS	1983-84 (1)	1993-94 (1)	1995-96 (2)
Market share (% total sales $)	13.4%	12.6%	14.5%
Share of vol. of new sound rec. released on market	16.6%	11.3%	12.4%

The IFPI data corroborates the observed status quo of around 10% for the market share of albums with Canadian content across Canada. Table E.2 also indicates that Canada is at the bottom of the list of countries considered in the sample in this respect. Canada's situation seems similar to that of Belgium, which, like Canada, neighbours a country with a much bigger population sharing one of its national languages. Furthermore, Australia provides an example of a distinct decrease which suggests that the status quo situation observed in Canada and Belgium was perhaps not at all pre-established.

Table E.2: List of % of Sales Per Country; Sample of Countries

	1991	1992	1993	1994	1995	1996
France	43.6	39.9	42.9	44.4	47.1	49.5
United Kingdom	45.0	–	45.5	51.1	50.5	51.0
Belgium	15.0	10.0	13.0	13.0	12.8	14.8
Canada	10.0	10.0	10.0	10.0	10.0	10.0
Japan	72.0	80.1	80.6	72.4	76.3	73.1
Australia	25.0	25.0	25.0	–	–	11.9

Available statistics do not shed light on the evolution of results for French and English-language albums with Canadian content. However, the comparison of indicators between Quebec and the rest of Canada indicates that the positioning of French-language albums with Canadian content improved in Quebec, while the situation in the rest of Canada remained at status quo (see Tables E.3 and E.4).

Table E.3.: Market Share of Albums With Canadian Content; Quebec and the Rest of Canada (ROC)

	1984-85	1993-94	1994-95
Quebec	11.6%	22.9%	21.7%
ROC	11.2%	10.8%	na
Total	11.2%	12.6%	na

Table E.4.: Share of Albums With Canadian Content in New Releases; Quebec and the Rest of Canada (ROC)

	1984-85	1993-94	1994-95
Quebec	18.7%	29.5%	18.5%
ROC	15.6%	8.4%	nd
Total	16.3%	11.3%	nd

Furthermore, companies under Canadian control played an even more predominant role in production and releases of albums with Canadian content. However, their share of the market for these products did not increase significantly, remaining minor.

Table E.5.: Shares of Albums With Canadian Content Released on the Market; Companies Under Canadian Control

COMPANIES UNDER CANADIAN CONTROL	1984-85 (1)	1993-94 (1)	1995-96 (2)
Share of total sales of sound recordings with (1) Canadian content (2) Canadian artists	42.0%	44.6%	43.7%
Share of volume of new sound recordings released on the market with (1) Canadian content (2) Canadian artists	60.2%	71.1%	80.6%

Table E.6.: Share of Sales and Production of Albums With Canadian Content for Companies Under Canadian and Foreign Control

	1984-85 (1)	1993-94 (1)	1995-96 (2)
SHARE OF SOUND RECORDINGS SALES WITH (1) CANADIAN CONTENT (2) CANADIAN ARTISTS :			
- of companies under Canadian control	41.8%	34.9%	45.8%
- of companies under foreign control	7.3%	8.3%	9.5%
SHARE OF SOUND RECORDINGS WITH (1) CANADIAN CONTENT (2) CANADIAN ARTISTS IN THE NUMBER OF ALBUMS MARKETED BY:			
- companies under Can. control	35.0%	23.3%	33.8%
- companies under foreign control	9.0%	5.0%	3.4%

E.1.2 Evolution of the Positioning of the Sector Under Canadian Control

The Domination of the Majors

The very strong domination of the "majors", which are less involved than the independent sector in the production of albums with Canadian content, was one of the considerations during the elaboration of the SRDP. The majors, which have become more focused since then, appear to have maintained the same degree of domination, of both market share and the share of albums released on the market (their strength in promotion/marketing making itself felt) (see Table E.7). Thus, although certain aspects of the independent sector were strengthened, these were not sufficient to significantly increase its share of the Canadian market.

Table E.7.: Share of Market and Releases; Foreign-Controlled Companies

CANADIAN SOUND RECORDING COMPANIES UNDER FOREIGN CONTROL	1985-86	1995-96
Market share (% total sales)	87.4%	86.1%
Share of volume of new sound recordings released on the market	72.1%	70.4%

Source: EEC Canada compilations from Statistics Canada

The 14% market share belonging to the sector under Canadian control indicated by Statistics Canada data for 1995-96, is close to the 12% share evaluated by IFPI belonging to the Canadian independent sector in 1997.

In 1995-96, the average revenue of companies under foreign control (a group dominated by the majors) was 2.5 times greater than in 1984-85, whereas companies under Canadian control experienced about a 70% increase in revenue (which was mostly due to a very large increase in the number of companies under Canadian control) (see Table E.8).

Structure of the Sector Under Canadian Control According to the Size of Companies

The base of companies under Canadian control almost doubled in 1984-85 to 1995-96 (+81%) in different categories of size (according to revenue). Almost all companies whose revenue was lower than $1 million can be included first.

Very small companies (with a revenue lower than $100,000) represented about 60% of the total number of companies in 1984-85 as well as in 1995-96. These micro companies form a volatile group (entries/exits) which is non-profitable overall and subject to variable results. Their average revenue was not higher in 1995-96 than in 1984-85 ($12,000) and their average margin of benefit indicated distinctly higher losses (see Table E.8). These are companies which produce less than 2 albums per year, and which, if they are not emerging or transient (i.e. they do not disappear quickly or "graduate"), operate on the economic fringes of the record industry.

The intermediate group, made up of Canadian companies whose revenue was between $100,000 and $1 million (according to the categorization used by Statistics Canada), is certainly very heterogeneous since it includes both economically marginal micro-companies and fully integrated companies.

From 1984-85 to 1995-96, there was a significant widening of this group, which was, however, less than that of the abundant micro-company segment (+59% compared to +84%). Their average production increased notably (4.7 albums released in 1995-96 compared to 3 in 1984-85). However, average sales per company hardly improved at all, even in current value ($252,000 compared to $224,000), with their average profitability remaining marginal (0.3% instead of –1.9%). The strong decrease in the average number of full-time employees for this group of companies suggests that companies have lighter structures today than they did at the previous time (see Table E.8).

Table E.8. Characteristic Results Indicators According to Ownership Origin and Revenue Category, 1984-85 and 1995-96

	1984-85	1995-96
NUMBER OF COMPANIES		
- Under Canadian control	132	239
- Under foreign control	12	15
-Revenue lower than $100,000	*82 (57%)*	*151 (59%)*
- Revenue from $100,000 to $999,000	*41 (28%)*	*65 (26%)*
- Revenue $1,000,000 and more	*21 (15%)*	*38 (15%)*
AVERAGE TOTAL REVENUE OF COMPANIES		
- Under Canadian control	$458,000	$781,000
- Under foreign control	$25,217,000	$83,420,000
- Revenue lower than $100,000	*$37,800*	*$36,400*
-Revenue from $100,000 to $999,000	*$366,000*	*$489,000*
- Revenue $1,000,000 and more	*$16 ,429,000*	*$28,963,000*
AVERAGE SALES OF COMPANIES		
- Under Canadian control	$225,000	$508,000
- Under foreign control	$19,458,000	$50,247,000
-Revenue lower than $100,000	*$12,000*	*$11,900*
- Revenue from $100,000 to $999,000	*$224,000*	*$252,000*
- Revenue $1,000,000 and more	*$12,048,000*	*$22,553,000*
AVERAGE NUMBER OF RELEASES		
With Canadian content / Canadian artists		
- Companies under Canadian control	2.2	2.8
- Companies under foreign control	16.2	10.7
-Revenue lower than $100,000	*1.7*	*1.3*
- Revenue from $100,000 to $999,000	*3*	*4.7*
-Revenue $1,000,000 and more	*10.8*	*8.6*
Other Sound Recordings		
- Companies under Canadian control	4.1	5.4
- Companies under foreign control	163	302
-Revenue lower than $100,000	*0.5*	*0.5*
- Revenue from $100,000 to $999,000	*3.1*	*1.9*
-Revenue $1,000,000 and more	*111*	*148*
MARGIN OF BENEFIT(*)		
- Co. under Canadian control	1.7%	7.5%
- Co. under foreign control	8.2%	16.3%
-Revenue lower than $100,000	*- 0.3%*	*- 27.7%*
- Revenue from $100,000 to $999,000	*- 1.9%*	*0.3%*
- Revenue$ 1,000,000 and more	*7.5%*	*15.5%*
AVERAGE NUMBER FULL-TIME EMPLOYEES		
- Co. under Canadian control	4.8	2.4
- Co. under foreign control	177	147
-Revenue lower than $100,000	*0.74*	*0.39*
- Revenue from $100,000 to $999,000	*11*	*2.2*
- Revenue$ 1,000,000 and more	*106*	*68*

(*) (Total revenue – total expenses) / Total revenue

Source: EEC Canada compilations from Statistics Canada

According to the per revenue categorization adopted by Statistics Canada, the major companies are grouped in the "$1 million and over" category. Statistics Canada does not provide cross-referenced data according to company size and origin of ownership. However, by comparing results in the category of companies whose revenue was "$1 million and over" with the results of companies under foreign control (with the acceptable hypothesis that this group is made up of companies whose turnover is equal to or greater than $1,000,000) the results obtained by the biggest companies under Canadian control can be estimated.

A tangible improvement in the development and reinforcement of the sector under Canadian control can be observed by comparing the characteristic results indicators from 1984-85 to those from 1995-96 (see Tables E.9 and E.10):

- the core of sound recording companies under Canadian control with a revenue of $1 million and over grew significantly over the years (from 9 companies in 1984-85 to 23 in 1995-96);
- their total revenue more than tripled (a relative growth which was markedly higher than that of companies under foreign control);
- their total revenue from album sales in 1995-96 was five times bigger than in 1984-85, which meant a higher relative increase than for companies under foreign control;
- the number of albums with Canadian content released on the market by these companies was also 5 times higher in 1995-96 than it was 10 years earlier, and in 1984-85 the number of albums with Canadian content released on the market by companies under foreign control was 6 times higher than that of the biggest companies under Canadian control, which released the same number of these albums as companies under foreign control in 1995-96;
- the core of the biggest companies under Canadian control also had a distinctly higher level of profitability in 1995-96 than in 1984-85 (i.e. approximately 10.4% instead of 2.5%;
- the number of full-time employees in these companies increased by almost four times during the ten years under study.

Table E.9: Characteristic Results of Companies Under Foreign Control, and Companies Under Canadian Control With a Revenue of $1 Million and Over; 1984-85 and 1995-96

	Companies Under Foreign Control		Companies Under Canadian Control(revenue $1 million and more	
	1984-85	1995-96	1984-85	1995-96
Total Revenue (million $)	303	951	42	149
Record sales (million $)	234	754	20	103
Number of albums with Can. content released on the market	194	161	32	166
Other releases	1956	4530	375	1094
Total full-time personnel	2124	2206	102	379
Number of companies	12	15	9	23
Average revenue/Co. (million $)	25	63	5	7
Average album sales/Co. (million $)	20	50	2	5
Average number of albums with Can. cont. released /Co.	16	11	4	7
Average revenue for sales of albums by Can. artists ($000)	-	445	-	239
Average number of other albums released /Co.	163	302	42	48
Margin of benefit (%)	8.2%	16.3%	2.5%	10.4%
Full-time personnel /Co.	177	147	11	16

Source: EEC Canada compilations from Statistics Canada

Table E.10: Comparison of Results from 1995-96 / 1984-85 Obtained by Companies Under Foreign Control and Companies Under Canadian Control With a Revenue of $1 Million and Over

	Companies Under Foreign Control		Companies Under Canadian Control (revenue $1million and more	
	Variation in results %	[Results 1995-96] : [Results 1984-85] *(multiplier)*	Variation in results %	[Results 1995-96] : [Results 1984-85] *(multiplier)*
Total revenue	214%	3.1	252%	3.5
Revenue album sales	223%	3.2	430%	5.3
Number of albums with Can. content released on the market	-17.4%	0.8	413%	5.1
Other market releases	132%	2.3	192%	2.9
Total full-time personnel	4%	1.0	272%	3.7
Number of companies	25%	1.3	156%	2.6
Average revenue	152%	2.5	38%	1.4
Average revenue album sales	158%	2.6	107%	2.1
Average number albums Can. content released on market	-34%	0.7	101%	2.0
Average number other releases	85%	1.9	14%	1.1
Margin of benefit	99%	2.0	315%	4.2
Average full-time personnel	-17%	0.8	45%	1.5

Source: EEC Canada compilations from Statistics Canada

The growth and improvement of results in the segment of the biggest companies under Canadian control mentioned above, although a positive development, should not obscure the fact that companies under foreign control still greatly dominate the Canadian record industry.

Table E.11 offers a direct comparison of companies "under foreign control" and those "under Canadian control" with revenues of more than $1 million for each of the two reference years considered.

Table E.11: "Relative Weight" and Relative Results of the Biggest Companies Under Canadian Control, With Respect to Size and Results Obtained by the Group of Companies Under Foreign Control, 1984-85 and 1995-96

	Size and results of the biggest companies under Canadian control compared to those under foreign control *(in %)*		Size and results of companies under foreign control compared to those of the biggest companies under Canadian control *(multiplier)*	
	1984-85	1995-96	1984-85	1995-96
Total revenue	14.0%	15.7%	7.1	6.4
Revenue album sales	8.4%	13.7%	12.0	7.3
Number albums released on market/Can. content	16.7%	103.6%	6.0	1.0
Other albums released	19.2%	24.2%	5.2	4.1
Total full-time personnel	4.8%	17.2%	20.8	5.8
Number of companies	75.0%	153.3%	1.3	0.7
Total revenue/Co.	18.7%	10.2%	5.4	9.8
Revenue album sales/Co.	11.1%	8.9%	9.0	11.2
Number of albums Can. content released /Co.	22.2%	67.8%	4.5	1.5
Other releases/Co.	25.6%	15.8%	3.9	6.3
Margin of benefit	30.5%	53.8%	3.3	1.8
Average full-time personnel/Co.	8.4%	11.2%	15.6	8.9

Source: EEC Canada compilations from Statistics Canada

Table E.11 also reflects the improvement in the positioning of the biggest companies under Canadian control compared to the sector under foreign control, as well as indicating that they were of a modest size compared to the majors.

Furthermore, for the whole independent sector, the smaller improvement in results obtained by smaller companies under Canadian control (i.e. micro-companies with revenues lower than $100,000, and the intermediate group with revenues between $100,000 and $1 million) contributed to limiting the gains in market share (compared to the sector under foreign control) that the improvement in results obtained by the biggest companies under Canadian control favoured.

Table E.10 shows in this case that, in 1984-85, estimated album sales for the biggest companies only represented 7.7% of the total album sales for companies under foreign control combined with their own sales. In 1995-96, they represented 12% (+4.3 %). However, as indicated in Table E.7, the market share of the sector under Canadian control in 1995-96 was, on the whole, only 1.3% bigger than in 1984-85 (13.9% / 12.6%).

Thus, it is necessary to keep in mind that the widening of the core of companies under Canadian control with revenues higher than $1 million suggests, at least in part, that smaller companies with better results could have developed and "graduated" to a higher stratum of the pyramid formed by the population of companies in the independent sector according to size (a reversed pyramid based on sales).

Profitability and Risk

The growing profitability trend observed is a "positive" indication of the improvement of the situation and conditions for development as well as those for the consolidation of companies. However, regardless of whether this trend is weak, moderate, or strong, the conditions for viability and reinforcement also closely depend on the variability of profits, expressing the degree of risk. The prevalence of the risks involved in the production and marketing of sound recordings (*"the uncertainty of revenues for each sound recording"* , as stated in a Canadian Heritage technical document in 1985) is one of the factors which justify public intervention.

Positive observations of improved profitability for major companies under Canadian control should therefore be put into perspective by considering the evolution of risk indicators. Furthermore, smaller companies still incur major risks. Overall, the independent sector is developed, and in many ways its results have improved, but its reinforcement remains fragile and its consolidation necessary.

Table E.12 presents the profitability and risk indicators for different categories of companies estimated for the two periods: the first corresponds approximately to the 1980's (1982-83 to 1988-89) and the second covers the end of the 1980's and the first 6 years of the 1990's (1987-88 to 1995-96)[31].

31 The overlapping of periods (1987-88 and 1988-89) is justified by technical requirements for calculations (minimum number of information points required); this overlapping does not compromise the indicative value of results and the pertinence of the analysis.

Table E.12: Profitability and Risk According to Size and Ownership Origin of Companies, 1982-83 to 1988-89 and 1987-88 to 1995-96

COMPANY CATEGORIES	AVERAGE ANNUAL PROFITABILITY RATE		DEGREE OF RISK	
	1982-83 to 1988-8	1987-88 to 1995-96	1982-83 to 1988-89	1987-88 to 1995-96
SIZE according to turnover				
Less than $100,000	- 7.1%	- 12.1%	9.4	16.4
From $100,000 to $999,999	- 1.4%	1.8%	3.1	4.3
$1 million and more	9.6%	15.0%	2.9	1.1
CONTROL				
Canadian	1.2%	4.0%	3.5	3.7
Foreign	11.1%	16.8%	3.2	1.0
$1 million and more under Canadian control[32]	0.8%	5.1%	2.0	3.8
WHOLE INDUSTRY	9.1%	14.5%	2.8	1.2

Source: EEC Canada compilations from Statistics Canada

As indicated in Table E.12, companies "under foreign control" and companies in the "$1 million and over" category (results for both categories were closely correlated considering the strength of the majors) appear to have consolidated profitability while operating with a degree of risk which was markedly lower from one period to the next.

The biggest companies "under Canadian control" also experienced a distinct improvement in profitability; however, they also experienced a marked increase in the degree of risk.

On account of these results, the companies "under Canadian control" experienced a significant increase in profitability (+3%) which was accompanied by a slight increase in risk.

The intermediate group (companies with revenues between "$100,000 and $1 million") experienced the same kinds of changes in profitability and risk.

[32] Indirect estimation based on the difference between the results for the "$1 million and over" category and the category under foreign control.

The basic segment, grouping micro-companies with revenues lower than $100,000, stands out due to a significant decrease in profitability (a marked growth in its deficit) and a large increase in its degree of risk.

Derived from Table E.12, Table E.13 presents these results by classifying them into groups according to levels of results. Figure E.a shows this as a graph.

In addition, Figures E.b, E.c and E.d each provide a different illustration of the comparison between Canadian-controlled and foreign-controlled sectors, as well as the share of albums with Canadian content as related to distribution and total revenue.

Table E.13: Classification of Groups of Companies According to the Level and Evolution of Profitability and the Degree of Risk, 1982-83 to 1988-89 and 1987-88 to 1995-96

Company Categories	1983-89 Situation	1988-96 Situation	Changes
Companies under foreign control	Average Productivity (11%) Moderate Risk (3)	High profitability (17%) Very low risk (1)	High increase profitability (+6) Marked decrease risk (-2)
Segment of "big companies" according to size: Companies $1 million and more	Average Productivity (10%) Moderate Risk (3)	High profitability (15%) Very low risk (1)	High increase profitability (+5) Marked decrease risk (-2)
Companies $1 million and more under Canadian control	Border profitability (1%) Low risk (2)	Low profitability (5%) High risk (4)	High increase profitability (+4) Marked increase risk (+2)
Companies under Canadian control	Border profitability (1%) High risk (4)	Low profitability (4%) High risk (4)	Significant increase profitability (+3) Stable degree of risk (very slight increase)
"Intermediate" segment according to size: Companies $100,000 to $1 million	Border profitability (-1%) Moderate risk (3)	Border profitability (2%) High risk (4)	Significant increase profitability (+3) Slight increase risk (+1)
"Base of micro-companies" segment according to size: Companies less than $100,000	Slight deficit (-7%) Very high risk (9)	Deficit (-12%) Very high risk (16)	High increase losses (-5) Very high increase risk (+7)

Figure E.a.: Trend in Profitability and Degree of Risk by Company Category by Size and Origin of Control
Period 1982–83 to 1988–89 / Period 1987–88 to 1995–96

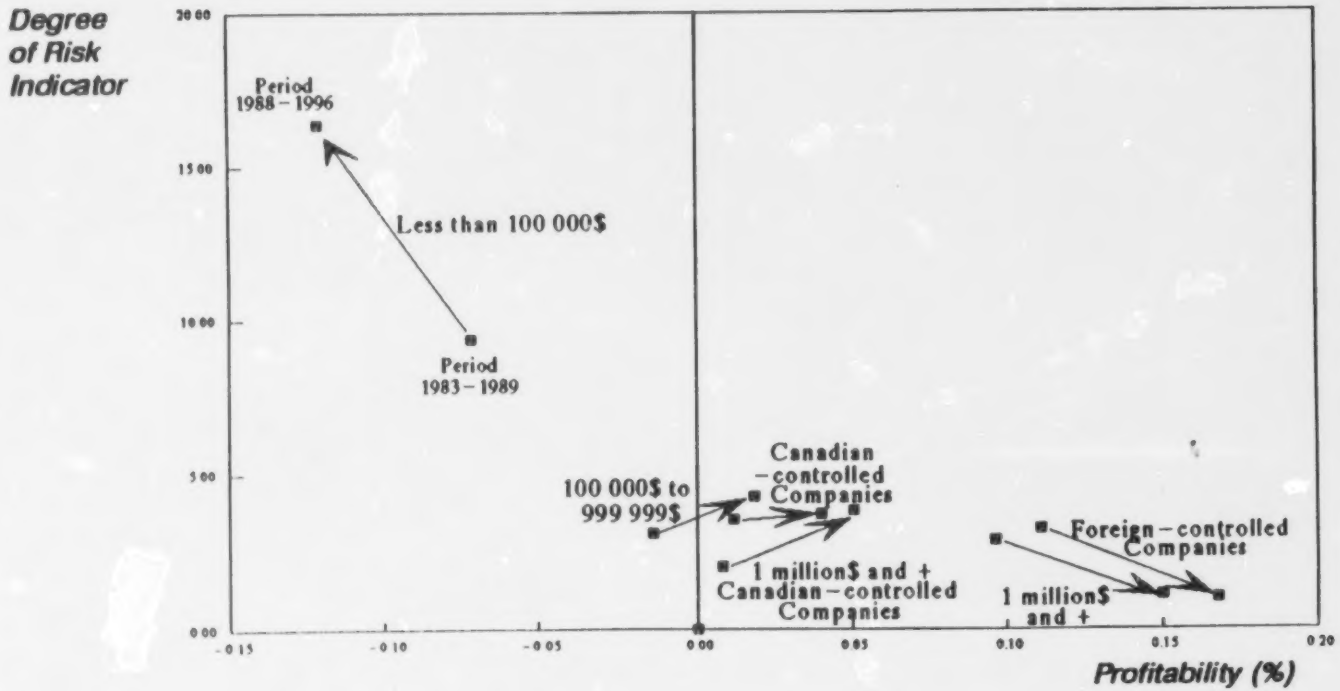


Figure E.b.: Canadian Sound Recording Industry
Trend in Sales ($ Millions) by Company Origin and Album Content
(1982–83 to 1995–96)

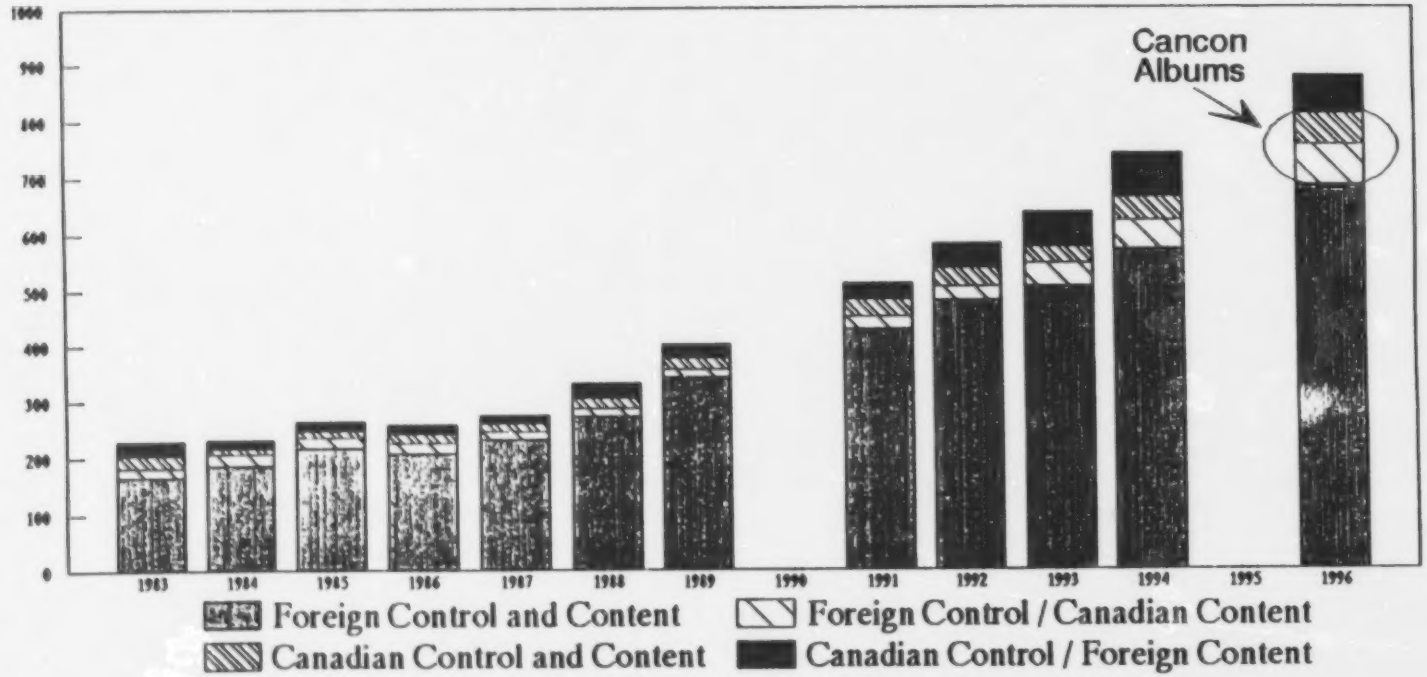
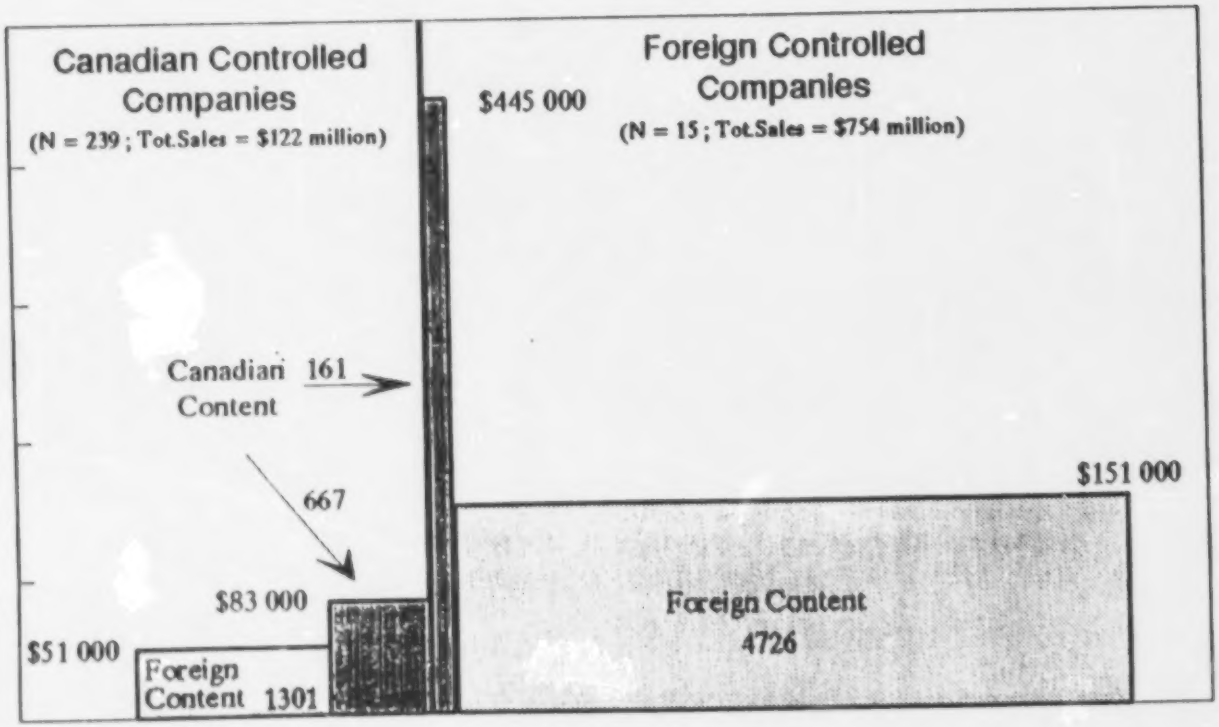
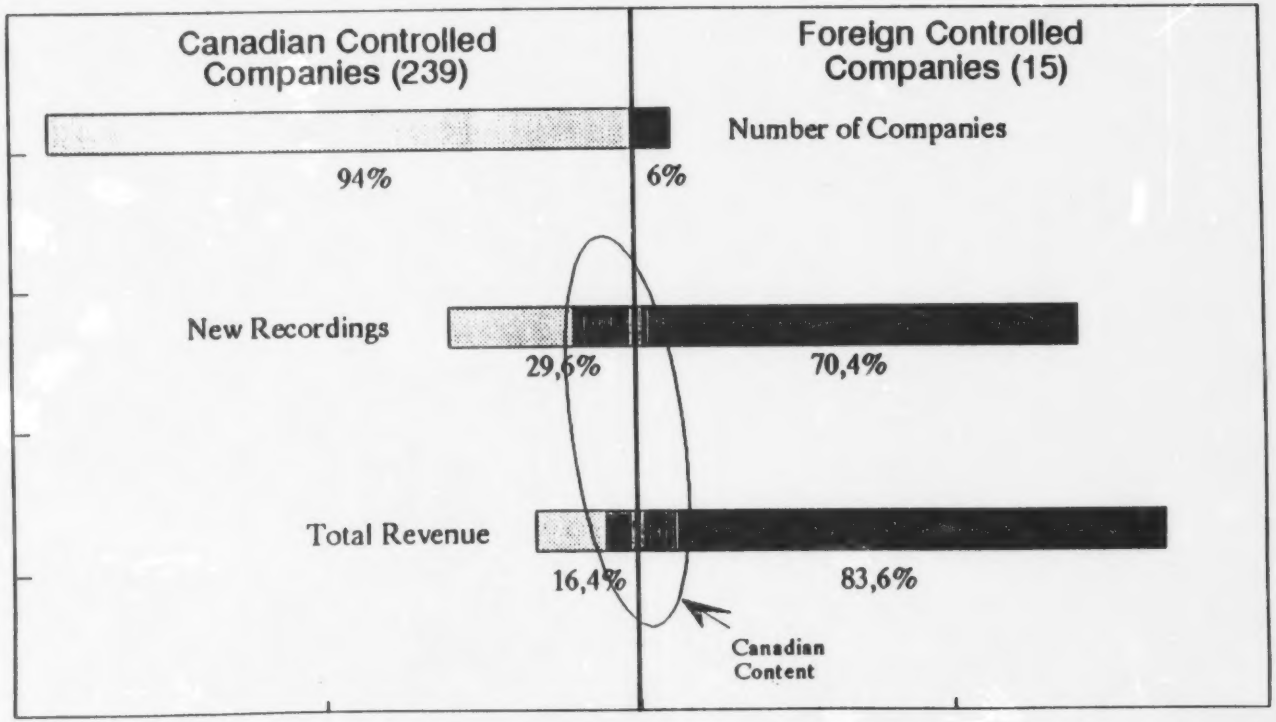


Figure E.c.: **Average Sales by New Recording and Number of New Recordings by Company Origin (1995–96)**



* The width of each shaded block indicates the number of new released on the market;
The height of each block indicates the level of average sales per album;
The surface area of each block represents the amount of total sales for the companies–albums categories discussed;
The combined area of all the blocks represents the size of the Canadian market.

Figure E.d.: Canadian Sound Recording Industry
Distribution of the Number of Companies, the Number of New Albums Released and Total Revenue by Origin of Control
1995–1996



E.1.3 Detailed Analysis of Risk in the Canadian Recording Industry

The preceeding general observations regarding profitability and risk in the sound recording sector encouraged the Department to enlarge the analytical framework of the evaluation. To better discern the nature of risk in the recording industry, Etude Economique Conseil (EEC Canada Inc.) undertook a more detailed survey of approximately thirty record companies[33]. This survey examined the nature of the companies, their activities, their financial results over the longest possible timeframe up to ten years ago (profit and loss and balance sheet data), a portrait of their catalogue, full-time staff, temporary/occasional staff, financial needs as perceived by the companies, their efforts towards consolidation of human capital and more generally their strategies for development.

This approach was used for the following reason:

- isolating several cohorts over the timeframe of the study captured the evolution of the financial situation of a core of longstanding companies and eliminated any effects generated by the entry and exit from the market of other companies;
- regrouping a core of companies along a number of simple criteria (e.g. size[34] and risk) permitted the identification of regularities in the financial profiles of the sector and therefore the isolation of risk factors.

What Are Common Preconceptions Regarding Risk?

Participants in the sound recording industry (creators, entrepreneurs, associations and cultural bureaucrats) often hold the following ideas regarding risk in their industry:

- the return for Canadian firms in this sector is low **because the risk is high;**
- sources of financing are few for companies within this sector **because risk is high;**

---

[33] The questionnaire was sent in successive mailouts to sixty Canadian firms in the sector. The completed questionnaires from 34 of the respondents constitute the database from which this analysis was drawn.

[34] The size criterion was established by the level of production activity per firm based on the number of new recordings released per year.

- public assistance directed towards firms in the recording industry must be maintained, even increased, **at least in part because** risk is high;

- to increase their return, Canadian-controlled firms in the sector **must take more risks** which diminishes their return, renders them even more fragile, and renders private financing even less accessible. This reinforces the argument in favour of maintaining and increasing public assistance for the sector.

Participants in the industry may sometimes refine these ideas in the following manner:

- **distinct risk categories for sound recording companies exist;** this distinction can be conceptualized as a scale of risk of varying degrees;

- **each of these categories can be characterized by relatively straightforward factors such as:**

  - specialization (e.g. musical genres, language);

  - size (determined by gross revenues or net worth);

  - diversification (e.g. involvement in activities indirectly associated with the sales of recordings such as concert production, studio rental, etc) or

  - integration (e.g. the internalization of certain functions);

- **it is possible to weight the relative importance of these different risk factors** in relation to each other and to take them into account **to neutralize the different degrees of risk between firms.**

The Relationship Between Risk and Return

The notion of risk is multifaceted. It is therefore of primary importance not to be deceived by its apparent simplicity. In the field of economics, the link between risk and return has been the subject of a significant body of research. Essentially, "risk" is often evoked *to explain the different rates of return* observed in various economic activities.

It is therefore necessary to clarify the nature of the relationship between risk and return. It is less a causal link than a factor which *serves to explain* the existence over time of significant variations between the rates of return in different sectors .

It is not simply **because** an activity is higher risk that it will **necessarily** generate a higher return. On the contrary: when an activity is higher risk, it will **in general** realize a *lower than average return*. This being said, **when** a higher-risk activity generates a return, it will usually be *higher than the average*.

In effect, the *majority* of low-risk activities will generate a higher return than high-risk activities, however, those high risk activities which *do generate a return* will be much more profitable than low-risk activities.

The above comments follow directly from the **definition of risk:**

- If the inherent risk of an activity is understood as the uncertainty of the return it will generate in the future then the higher the risk associated with an activity, the larger the interval of variability within which the return will be situated.

Another element of confusion in discussions regarding risk consists of the following: the profitability of an activity is lower **because** the risks it faces are higher than for other activities, and that inversely, the profitability of an activity is higher **because** the risk it faces are lower than for other activities. Participants in the sound recording industry sometimes confuse these elements.

In reality, the profitability of an activity is the result of a large number of factors, 'the inherent risk associated with the activity' being only one - and not necessarily a central - element among these. In effect, individuals involved in an activity adopt behaviours to mitigate the risks that are part of their business environment; some succeed in neutralizing or better adapting to inherent risks than others. In such cases, it is obvious that profitability is influenced by the 'ambiant' risk which can act as an incentive for them to improve their outcome.

To thoroughly clarify the risk-return problematic, two situations may serve as explanations: those that are high-risk and those that are low-risk (Table E.13.a). Thus, all other factors being equal, if the environment in which the activity occurs is particularly turbulent, instable and unpredictable, the following can be expected:

- the probability of realizing positive results is low - that is the number of projects which fail or which are only minimally successful in this context will likely be high;

- however, the relative few which do succeed in this context will generate a high return which will reward their willingness to assume greater risk and their capacity to successfully do so.

In contrast, activities which are undertaken in a more stable environment, better known and more predictable (less risky):

- will see a higher number of successful projects, and from the outset, the probable rate of a positive return will be higher;

- however, given that projects in this context will face fewer significant obstacles, the return will likely be lower.

Table E.13.a Summary Typology of Risk-Return Situations

ENVIRONMENT WITHIN WHICH THE ACTIVITY IS UNDERTAKEN	PROJECTS WITH A NEGATIVE RETURN		PROJECTS WITH A POSITIVE RETURN	
	PROPORTION OF PROJECTS	WHOSE AVERAGE RETURN IS	PROPORTION OF PROJECTS	WHOSE AVERAGE RETURN IS
HIGH RISK	HIGH	VERY NEGATIVE	LOW	VERY HIGH
LOW RISK	LOW	SLIGHTLY NEGATIVE	HIGH	SLIGHTLY POSITIVE

Thus, it is of utmost importance not to confuse the two elements which are implicity contained in a traditional risk analysis:

- the probability of being in a situation of positive or negative return; and

- the particular level at which this return is likely to be situated. The level is determined by the average anticipated return and the variations from this average.

At the outset, we can expect that in a high risk situation, the probability of a return is low, but in successful cases, that the return would be high (high risk generates high return);

while in low-risk situations, the probability of a return is high, but in successful cases, the return would be modest (low risk generates low return).

It may be tempting to study the question of risk strictly based on rates of return and to conclude that if these are higher in one context rather than another, (e.g. large company vs. small company, specialized vs. diversified, independent vs. integrated) then the risk is lower, and less public assistance should be allocated. Unfortunately it is impossible, by simple examination of rates of return, to determine the level of risk inherent to the activity of a company.

Criteria to Determine Risk

The methodology utilized in this study eliminates this problem and does not a priori confuse *risk* and *return*. It is, therefore, more rigourous.

All companies are in fact faced with uncertainty regarding their future. The particular risks which they face can be measured by the probabilities associated with the variability of anticipated results. It is, in fact, this distribution of probability which identifies the risks inherent to sound recording activities.

An example can serve to clarify the preceeding explanations.

Owners of capital can invest in two 'activities':

- the first is 'risky' (in that the anticipated return on the investment is uncertain), for example a lottery;
- the second does not carry risk (in that the return on the investment is known at the outset) for example, a term deposit with a reputable financial institution.

The principal characteristics of each activity are described below:

The Lottery

- tickets are sold for $1,000.00 and are non-refundable once purchased;
- the jackpot is $1 million;
- the draw will take place in one year's time;
- at least 2,000 individuals participate in the draw.

The Term Deposit

- the annual rate of return is 8%;
- the minimum deposit required is $1,000.00; any amounts above the minimum must be in multiples of $1,000.00;
- the term deposit can be cashed in before the year end without penalty but without accrued interest;
- the financial institution offering the term deposits is in no danger of bankruptcy and will be able to fulfill its obligations in one year's time;
- at least 10 000 individuals participate in this investment.

Table E.13.b which follows presents the anticipated returns based on straightforward probabilities of failure and success.

Table E.13.b: Return and Risk of Failure for Both Activities

	Lottery	Term Deposit
Number of participants	2 000	10 000
Maximum rate of return	1 000%	8%
Minimum rate of return	- 100%	8%
Number of 'winners'	1	10 000
Risk of loss	99.95%	0%
Rate of return of 'winners'	1 000%	8%
Maximum loss	$1 000	$0
Maximum gain	$1 000 000	$80

Therefore, for the *majority of investors in the higher-risk activity* (1,999) the return obtained (-1,000%) is *inferior* to that (8%) of the majority of investors in the activity without risk. For those who lose their investment, it cannot be said that "high risk" is synonymous with "high return". On the contrary, the act of taking a higher risk translates into a **lower** return (negative in this example) than that obtained by a **low risk activity**.

However, for **those who succeed** the situation is radically different. In effect, the rate of return for the '**winner**' at a higher risk activity is much superior (1,000%) to the return generated by the lower risk activity (8%).

Risk and Uncertainty

The indicator of risk utilized in this study is the stability over time of the profitability rate (net results / gross revenues) of the record label. The idea underlying this approach is that a firm which can estimate with reasonable accuracy its future performance is in a lower risk situation than that a firm whose future is more uncertain.

This indicator reflects the fact that firms are more likely to be in a high-risk situation when their future performance is the result of:

- phenomena beyond their control; and

- these phenomena are erratic, volatile and difficult to anticipate.

One of the significant implications of this means of evaluating of risk is that segments of the market or particular firms which systematically lose money as well as those which are systematically profitable are not considered high risk. If a firm knows ex ante that it will **systematically be unprofitable** over a period of years, regardless of the cause, this firm is **not in a situation of risk** even if its survival is threatened.

Risk defined as the foreseability of a company's net return has the merit of being neutral in terms of area of specialization, diversification and size of company, criteria which are generally considered relevant to risk analysis.

In all circumstances, risk follows from uncertainty regarding future results. In effect, risk is non-existent when results are completely foreseeable. However, if a firm must make a decision and cannot be sure of either the exact consequences or the moment at which they will occur, a degree of risk exists.

Within this definitional framework, the majority of business decisions are undertaken in situations of risk, as their outcome will materialize in a more or less certain future. Record companies are all placed in a situation of uncertainty regarding their future outcome, however, the particular risks they face can be evaluated by the different probabilities linked to the varying results they may be able to achieve.

Methods of Calculation and Classification

The database was first analysed in terms of company cohorts - groups of firms of the same "age". In this analysis there are three cohorts:

1) the first consisting of firms in existence for at least 10 years (14 firms);

2) the second consisting of firms in existence more than 4 and up to 10 years (14 firms);

3) the third consisting of firms in existence at least 2 but not more than 4 years (6 firms).

Each 'age' interval was divided into two time periods to compare different indicators within each cohort[35].

The year-to-year change of the net results/revenue ratios was calculated for each firm. These rates were then classified from the most positive to the most negative, excluding all characteristics such as cohort or year[36]. With this scale, the variation rate of the net return/sales ratio was divided into two risk categories:

- a high risk category consisting of ratios from the first quintile (the broadest variation rates of positive value) and those from the last quintile (the broadest variation rates of negative value);

- a low risk category consisting of the ratios from the three middle quintiles where the rate of variation was moderate to minimal.

In other words, the high risk category consists of record companies which have seen the most significant variability in their rate of return over time - those for whom the regularity of results is least predictable (whether as a result of internal or external factors) and regardless of whether this risk worked for or against them. The low-risk category consists of those firms characterized by greater regularity in returns generated over time, regardless of whether the return was regularly positive or negative.

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35 For instance, when data was available over a ten year period, the rate of variation of the profit/sales ratio was calculated for the first five year period and for the second five year period in order to be able to compare results over the first and second halves of the ten year period. For the group analysed over a six year period, the rate of variation of the profit/sales ratio was calculated separately for the first three and the last three years. For the group of firms in the four-year period, the rate of variation of the profit/sales ratio was calculated separately for the first two and second two year periods.

36 Thus, for a firm providing 10 years of data, it is possible to calculate 9 variation rates for the period, while for a firm providing 4 years of data, only 3 variation rates could be calculated. The scale of variation rates was constructed from the total number of variation rates calculated - were there only the two firms in the preceeding example, the scale would be established from 12 ratios (9+3). In the database, over two hundred ratios were utilized to set the scale.

Table E.13.c RELATION BETWEEN THE VARIABILITY OF PERFORMANCE RATIOS AND LEVEL OF RISK

Level of variability of net return/sales ratio over time	Level of corresponding risk	Risk in terms of returns	Proportion of number of ratios per category
Very high: level 1	high	very positive	20%
Moderately high: level 2	low	positive to neutral	20%
Positive: level 3	low	neutral	20%
Moderately negative: level 4	low	neutral to negative	20%
Very negative: level 5	high	very negative	20%

Thus each firm in the database was classified as being "high risk"or "low risk" annually for each year of its existence excepting the first.

Following this, numerous indicators were isolated to verify whether certain characteristics were consistently associated with 'high' or 'low' risk;

1) with regards to **size** of the firm, measured in terms of :

- revenues,
- sales of sound recordings,
- net worth,
- long term debt.

2) with regards to **financial structure**:

- in theory, short term debt should finance short term assets, that is accounts receivable and finished product inventory;

- total revenues / short term debt;
- short term liabilities / short-term assets;

- long term debt should in theory finance long-term assets and working capital enabling it to function and grow within a stable environment;

- long-term liabilities / long-term assets;
- long-term debt / total liabilities;
- long-term debt / equity;

- a company should have sufficient equity to enable it to mobilize debt financing (that is, sources external to the firm) and to enable it to withstand periods of losses;

- long-term debt / profits;
- equity / total assets;
- profits / equity;

3) others which reflect management decisions and modes of functioning of sound recording companies including:

- size of active catalogue;
- number of new recordings produced on an annual basis;
- proportion of revenues generated from sources other than sales of recordings;
- the mix and the number of employees dedicated to specific tasks;
- structure of operating costs.

The ensemble of these indicators are presented in the following tables (E.13.d to E.13.i).

Table E.13.d Results of Risk Survey: 1st Cohort (1st part)

1st Cohort (+ 10 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Number of firms	8	6	10	4
Average annual revenues per firm ($ 000)	$ 843	$ 524	$ 2 977	$ 1 972
Average annual sales from recordings per firm ($ 000)	$ 324	$ 277	$ 1 533	$ 1 579
Average net worth ($ 000)	$ 198	$ 235	$ 842	$ 1 222
Average long-term debt	$ 68	$ 98	$ 265	$ 314
Average annual profit per firm ($ 000)	$ 17	$ 28	$ 225	$ 485
Total revenues ($ 000)	$ 6 744	$ 3 144	$ 29 768	$ 7 889
Sales of recordings ($ 000)	$ 2 592	$ 1 662	$ 15 332	$ 6 314
Cost of sales ($ 000)	$ 3 544	$ 797	$ 10 278	$ 2 471
Other costs ($ 000)	$ 3 064	$ 2 179	$ 17 240	$ 3 479
Total costs ($ 000)	$ 6 608	$ 2 976	$ 27 517	$ 5 950
Net Profit ($ 000)	$ 136	$ 168	$ 2 251	$ 1 940
Short term liabilities ($ 000)	$ 2 780	$ 838	$ 15 470	$ 2 761
Long term liabilities ($ 000)	$ 544	$ 588	$ 2 652	$ 1 254
Total liabilities ($ 000)	$ 3 324	$ 1 426	$ 18 122	$ 4 105
Total net worth ($ 000)	$ 1 584	$ 1 410	$ 8 415	$ 4 888
Liabilities + capital ($ 000)	$ 4 908	$ 2 836	$ 26 537	$ 8 903
Short term assets ($ 000)	$ 3 100	$ 929	$ 16 330	$ 3 269
Long term assets ($ 000)	$ 1 808	$ 1 907	$ 10 207	$ 5 634
Total assets ($ 000)	$ 4 908	$2 836	$ 26 537	$ 8 903

Table E.13.e Risk Survey Results: 1st cohort (2nd part)

First cohort (+ 10 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Total revenues/short-term liabilities	2.43	3.75	1.92	2.86
Short-term liabilities/short-term assets	0.9	0.9	0.95	0.84
Long-term liabilities/long-term assets	0.3	0.31	0.26	0.22
Long-term liabilities/total liabilities	0.16	0.41	0.15	0.31
Long-term liabilities/net worth	0.34	0.42	0.32	0.26
Long-term liabilities/profits	4	3.5	1.18	0.65
Net worth/total assets	0.32	0.5	0.32	0.26
Profit/net worth	9%	12%	27%	40%
Average active catalogue	44	66	325	230
Average new recordings per year	21	17	47	24
Average employees per firm # dedicated to specific functions	4 1	6 2	17	21
Revenue-sales of recordings/revenue (%)	62%	47%	49%	20%
Cost of sales/revenue (%)	53%	25%	35%	31%
Other costs/ total costs	46%	73%	63%	58%
Profit / total revenue (%)	2%	5%	8%	25%

Table E.13.f Risk Survey Results: 2nd Cohort (1st part)

2nd Cohort (+ 4 years but less than 10 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Number of firms	8	6	11	3
Average annual revenues per firm ($ 000)	$ 268	$ 302	$ 456	$670
Average annual sales from recordings per firm ($ 000)	$147	$ 188	$265	$ 372
Average net worth ($ 000)	$ 66	$ 92	$ 176	$ 349
Average long-term debt	$ 13	$ 22	$ 25	$ 48
Average annual profit per firm ($ 000)	$ 7	$ 11	$ 11	$ 13
Total revenues ($ 000)	$ 2 144	$ 1 812	$ 5 012	$ 2 011
Sales of recordings ($ 000)	$ 1 176	$ 1 128	$ 2 911	$ 1 117
Cost of sales ($ 000)	$ 1 543	$ 1 168	$ 3 703	$ 1 913
Other costs ($ 000)	$ 545	$ 578	$ 1 187	$ 60
Total costs ($ 000)	$ 2 088	$ 1 746	$ 4 891	$ 1 972
Net Profit ($ 000)	$ 56	$ 66	$ 121	$ 39
Short term liabilities ($ 000)	$ 1 200	$ 869	$ 3 207	$ 884
Long term liabilities ($ 000)	$ 104	$ 132	$ 272	$ 145
Total liabilities ($000)	$ 1 304	$ 1 101	$ 3 479	$ 1 029
Total net worth ($ 000)	$ 528	$ 552	$ 1 931	$ 1 046
Liabilities + capital ($ 000)	$ 1 832	$ 1 553	$ 5 409	$ 2 075
Short term assets ($ 000)	$ 1 250	$ 1 002	$ 3 308	$ 1 256
Long term assets ($ 000)	$ 582	$ 551	$ 2 101	$ 819
Total assets ($ 000)	$ 1 832	$ 1 553	$ 5 409	$ 2 075

Table E.13.g Risk Survey Results: Second Cohort (2nd part)

Second cohort (+ 4 years and less than 10 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Total revenues/short-term liabilities	1.79	2.09	1.56	2.28
Short-term liabilities/short-term assets	0.96	0.87	0.97	0.7
Long-term liabilities/long-term assets	0.18	0.24	0.13	0.18
Long-term liabilities/total liabilities	0.08	0.13	0.08	0.14
Long-term liabilities/net worth	0.2	0.24	0.14	0.14
Long-term liabilities/profits	1.86	2	2.25	3.72
Net worth/total assets	0.29	0.36	0.36	0.5
Profit/net worth	11%	12%	6%	4%
Average active catalogue	12	18	29	43
Average new recordings per year	3	5	6	7
Average employees per firm # dedicated to specific functions	3 0	4 1	5 0	7 2
Revenue-sales of recordings/revenue (%)	45%	38%	42%	44%
Cost of sales/revenue (%)	72%	64%	74%	95%
Other costs/ total costs	26%	33%	24%	3%
Profit / total revenue (%)	3%	4%	2%	2%

Table E.13.h Risk Survey Results: Third Cohort (1st part)

3rd Cohort (at least 2 years but less than 4 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Number of firms	2	4	2	4
Average annual revenues per firm ($ 000)	$ 668	$ 264	$ 648	$ 557
Average annual sales from recordings per firm ($ 000)	$ 447	$ 212	$ 380	$ 466
Average net worth ($ 000)	$ 145	$ 12	$ 257	$ 50
Average long-term debt	$ 32	$ 43	$ 35	$ 51
Average annual profit per firm ($ 000)	$ 112	$ -45	$ 19	$ -45
Total revenues ($ 000)	$ 1 336	$ 1 056	$ 1 296	$ 2 228
Sales of recordings ($ 000)	$ 894	$ 848	$ 760	$ 1 866
Cost of sales ($ 000)	$ 609	$ 744	$ 480	$ 1 786
Other costs ($ 000)	$ 503	$ 492	$ 778	$ 623
Total costs ($ 000)	$ 1 112	$ 1 236	$ 1 258	$ 2 408
Net Profit ($ 000)	$ 224	($ 180)	$ 38	($ 180)
Short term liabilities ($ 000)	$ 841	$ 890	$ 991	$ 996
Long term liabilities ($ 000)	$ 64	$ 172	$ 70	$ 204
Total liabilities ($ 000)	$ 905	$ 1 062	$ 1 061	$ 1 200
Total net worth ($ 000)	$ 290	$ 48	$ 514	$ 199
Liabilities + capital ($ 000)	$ 1 195	$ 1 110	$ 1 575	$ 1 399
Short term assets ($ 000)	$ 650	$ 986	$ 892	$ 1 134
Long term assets ($ 000)	$ 545	$ 124	$ 683	$ 265
Total assets ($ 000)	$ 1 195	$ 1 110	$ 1 575	$ 1 399

Table E.13.i Risk Survey Results: Third Cohort (2nd Part)

Third cohort (+ 2 years and less than 4 years)	High Risk	Low Risk	High Risk	Low Risk
	First half of time period		Second half of time period	
Total revenues/short-term liabilities	1.59	1.19	1.31	2.24
Short-term liabilities/short-term assets	1.29	0.9	1.11	0.88
Long-term liabilities/long-term assets	0.12	1.39	0.1	0.77
Long-term liabilities/total liabilities	0.07	0.16	0.07	0.17
Long-term liabilities/net worth	0.22	3.58	0.14	1.02
Long-term liabilities/profits	0.29	-0.96	1.85	-1.13
Net worth/total assets	0.24	0.04	0.33	0.14
Profit/net worth	77%	-375%	7%	-90%
Average active catalogue	8	6	10	12
Average new recordings per year	4	3	1	3
Average employees per firm # dedicated to specific functions	7 2	4 0	4 0	4 0
Revenue-sales of recordings/revenue (%)	33%	20%	41%	16%
Cost of sales/revenue (%)	46%	70%	37%	80%
Other costs/ total costs	45%	40%	62%	26%
Profit / total revenue (%)	17%	-17%	3%	-8%

It is possible to confirm analyses put forward elsewhere in this report, and to clarify several assumptions regarding risk in the recording industry.

1) First of all, the "older" the firm, the greater control it has over its destiny; this is clearly demonstrated by the average value of typical performance variables (sales and profits). Independent of risk factors, the older the cohort, the greater the average profit:

Average Profit	First half of the time period	Second half of the time period
1st cohort	$ 22 000	$ 299 000
2nd cohort	$ 9 000	$ 11 000
3rd cohort	$ 3 000	($ 10 000)

This observation regarding the 'age' of the firm is equally valid in the analysis of average revenues and sales of recordings.

Average revenue	First half of the time period	Second half of the time period
1st cohort	$ 706 000	$ 2 690 000
2nd cohort	$ 283 000	$ 502 000
3rd cohort	$ 171 000	$ 252 000

Average sales of recordings	First half of the time period	Second half of the time period
1st cohort	$ 304 000	$ 1 546 000
2nd cohort	$ 165 000	$ 288 000
3rd cohort	$ 124 000	$ 188 000

2) This phenomenon of "longevity as an indicator of success" or of "maturity guaranteeing greater success" is confirmed when the two time periods for each cohort are compared against each other. In effect, the analysis suggests that firms learn their business during the first period and apply this expertise during the second. Performance indicators tend to improve over the second time period - the exception being the cohort of the newest firms which do not seem to have grasped lessons to be learned from the workings of the sector.

3) Finally, the results obtained from the risk analysis confirm the notion of risk presented in this report: when risk is high, **on average** profits are lower than when risk is lower. However, this does not mean that for **one company in particular** the return may be higher in a higher risk situation. Data from the first and second cohorts clearly confirm this view. Data from the third cohort seem to contradict this rule, however this may be accounted for by the small number of firms in the cohort and their minimal number of years in business. The lack of depth of the data for the third cohort disturbs the statistical reliability of the data and as a result can distort or dominate the analysis. This limits the conclusions which can be drawn from the third cohort's results.

4) Overall, risk has increased in the industry. The number of high-risk firms increased for the two oldest cohorts. This increase in the irregularity of results is not surprising as firms clearly changed "leagues" between the two periods of analysis: in terms of production activity, revenues, sales of recordings, size in terms of capital or debt as well as personnel, these firms grew from a relatively modest size to being more structured firms.

5) The variables which illustrate best the evolution of firms within each cohort of the study, in terms of risk, concern:

- **the manner in which they undertake their business as record companies;**
- **the manner in which they are managed.**

6) It is important to note that it is not characteristics such as size, geographic location, market or genre specialization which are responsible for differentiation in terms of risk. In fact, each cohort is comprised of both large and small firms which are high-risk - or low-risk. Each cohort is equally comprised of firms of varying genre specialization and geographic location.

7) Rather, **other factors underlie the variations in risk and return**, such as:

- the size of active catalogue;
- the number of new recordings released per year;
- the proportion of revenues generated from activities other than sales of recordings;
- the nature and number of positions dedicated to specific functions;
- the structure of operating costs.

8) **Long-term financing is more accessible to older firms than to newer:**

- with regards to long-term financing, firms within the sound recording industry (particularly those in the first cohort) have met with some success in seeking financing, particularly due to their increasing net worth. In effect the "oldest" high-risk firms increased their long-term debt in comparison to lower-risk firms;

- younger firms (second and third cohorts) clearly face greater difficulty in mobilizing the financing required by the volume of their activity;

- the activity of financial institutions in the sound recording sector is reflected in the balance sheets analysed. Short-term loans are legion, at times to the detriment of sound financial management of firms.

9) The **net worth of companies** on the whole increased over the time frame of the study; however what distinguishes firms from each other is the rhythm of their rate of growth.

10) The youngest firms are characterized by a combination of insufficient revenues and poor cash-flow management resulting in an overly high level of short-term financing. This may also be an indicator of the lack of long-term financing available to these firms.

Overall (all sizes of firms and risk levels combined), the total revenues/short term debt ratio decreased slightly over the time frame of the study. This tendency is confirmed for almost all categories of companies.

In considering the classification of record companies by risk, these results are maintained for high-risk companies. This ratio is stable or improves for low-risk firms (second and third cohort).

11) Despite the above, short-term financing is not always sufficient. The value of short-term debt/short terms assets ratio for most firms is extremely low (generally below 1).

12) **The principle source of long-term financing is a company's net worth**, possibly with the exception of some firms in the third cohort.

The long-term debt/equity ratio (all size of firms and risk levels combined) has receded significantly - demonstrating the increasing importance of equity financing, and reflecting the difficult access to long-term financing that this sector faces.

E.2. CANADIAN SUCCESSES AND THE SRDP

In 1985, in identifying constraints and critical stakes in the development of the sound recording industry, "MusicAction Group" mentioned the *"insufficient level of radio programming of music with Canadian content"* and saw that a *"strengthening of relations with radio broadcasters would straighten out the situation"*. A work document from the Department of Communications (July 1985) expressed a similar concern for the fact that *"lately, the decrease in the production of Canadian recordings has cast a gloom over prospects that radio could offer our artists"*, emphasizing that *"the saturation of airwaves with existing Canadian recordings led to a certain negative attitude on behalf of the public regarding both Canadian artists and radio stations"*. It was therefore expected that the increase in the number and quality of albums with Canadian content produced as a result of SRDP support would offer radio broadcasters more opportunities to play a wider range of music with Canadian content and by Canadian artists.

This section of the report presents the retrospective compilation of lists of the most widely played music on the radio ("radio successes", "radio tops" or "radio hit parades") and lists of the best-selling albums ("sales charts", "top sales" or "best sellers"). These lists are compiled for both the francophone and the anglophone repertoire.

Compiling radio hits permits the evolving situation of the positioning of music by Canadian artists (from albums with Canadian content) to be defined as favourable or unfavourable. In the same way, observing the evolution of albums with Canadian content on lists of best-selling albums sheds light on the improvement of Canadians' access to music by Canadian artists and with Canadian content.

The present section of the report also shows how the share of radio hits and sales attributable to albums whose production received SRDP support through MusicAction or FACTOR evolved.

The basic information used for the compilations and analyses presented in this section were obtained with the collaboration of *ADISQ* for the francophone charts, and *The Record* for the anglophone charts[37].

[37] *ADISQ* and *The Record* put together integrated and homogeneous databases covering the SRDP years. This compilation work was defined according to the reference terms elaborated by Étude Économique Conseil (EEC Canada) and validated by Canadian Heritage. The products differ markedly considering the special limits and constraints related to the format and availability of data from the different francophone and anglophone charts over the period considered.

E.2.1. Anglophone Successes and SRDP/FACTOR Assistance

Radio Hit Parades

Figures E.1 to E.4 present the results of the compilations of anglophone radio hits for the following musical categories: "contemporary music (adults)", "'classic' rock", "contemporary music (hits)", and "country music". Each figure illustrates the evolution, from 1986 to 1998, of: (i) the proportion of the total number of hits listed which had Canadian content, and (ii) the proportion of music from albums which received support from SRDP/FACTO.

The four types of hit lists examined show a marked improvement in the positioning of Canadian successes from the first years of the SRDP (1986 to 1988) to ten years later (1996 to 1998). In 1986, Canadian successes represented about 15% of the anglophone hit parades, and in 1998 they represented about 25% (an increase of about 15% to 30% for "contemporary music (adults)", 15% to 25% for "'classic' rock music", 18% to 26% for "contemporary music (hits)", and 15% to 25% for "country music"). Overall, this improvement in the success of music from albums with Canadian content on radio hit parades took place during the period 1986 to 1994, with a certain drop afterwards. Improvement in radio successes is clear and significant.

SRDP/FACTOR Radio Successes

For the "country music" hit parades, the evolution of the share of music from SRDP/FACTOR albums among the successes follows the profile observed for the Canadian successes: both indicators experienced a positive trend until 1994, then a decline until 1997, with a straightening out of the situation in 1998. This similarity could follow a direct correlation between the variation in Canadian successes and the variation in the SRDP successes which explain them. However, it is also possible that the SRDP successes simply followed more or less favourable movements of interest in "Canadian country music" that non-SRDP productions could have influenced.

A positive correspondence between an increase in the proportion of Canadian successes and SRDP successes can be observed in three other charts taking place over the first 4 or 5 years of the SRDP, i.e. from 1986 to 1989/1990. Following this, mainly from 1990 to 1994/1995, the evolution of the two indicators diverged: while the evolution of Canadian successes remained positive, that of SRDP/FACTOR became negative.

The proportion of SRDP/FACTOR successes on the radio hit parades for "contemporary music (adults)" stagnated from 1990 to 1994 at just over 5%, progressively decreasing over the next 4 years to its 1986 level. The proportion of SRDP/FACTOR successes in "'classic' rock music" increased to about 10% from 1986 to 1989. During that last year, half of the Canadian successes were from SRDP/FACTOR albums. Following this, while Canadian successes grew on the "'classic' rock music" charts, the proportion of this music from SRDP/FACTOR albums progressively decreased. In 1998, it represented less than 5% of successes on the charts. The same evolution profile is observed in "contemporary music (hits)", but at a lower level: the proportion of SRDP/FACTOR successes did not exceed 5% (1989, 1990, and 1994) and it dropped to very low levels in 1993, 1997, and 1998.

The observed evolution of the relative significance of music from SRDP/FACTOR albums on radio hit parades suggests that the program's *direct* impact, in terms of increasing the presence of music with Canadian content and widening the repertoire of Canadian music which benefits from good radio exposure[38] was very limited.

[38] This evaluation does not consider the indirect impact that the SRDP/FACTOR could have had through non-SRDP/FACTOR successes by artists who had once received FACTOR support for the production of an album (which, at the time, had not been a success).

Figure E.1

Top Radio - Pop Adult Radio
As % of Total Number of Compiled Top Albums

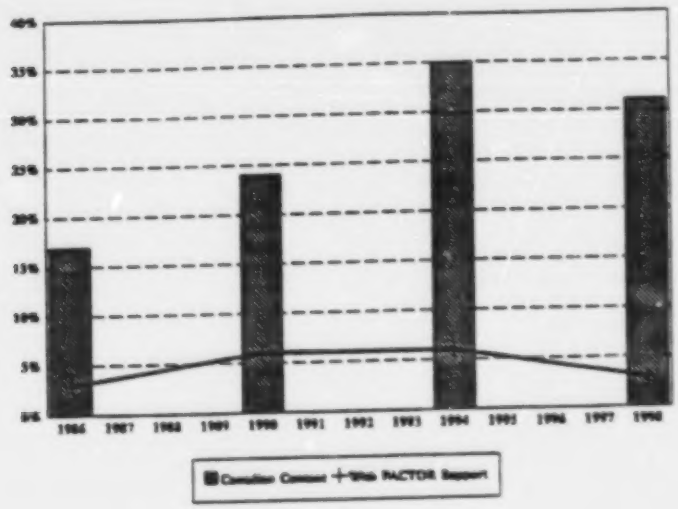


Figure E.2

Top Radio - Classic Rock
As % of Total Number of Compiled Top Albums

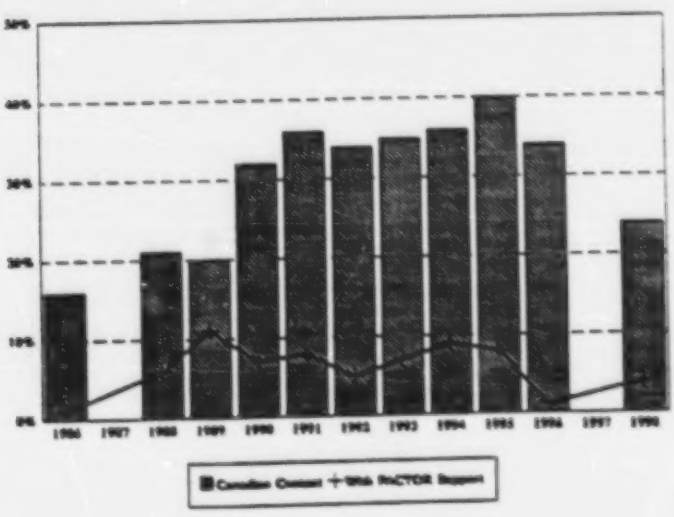


Figure E.3

Top Radio - Contemporary Hit Radio
As % of Total Number of Compiled Top Albums

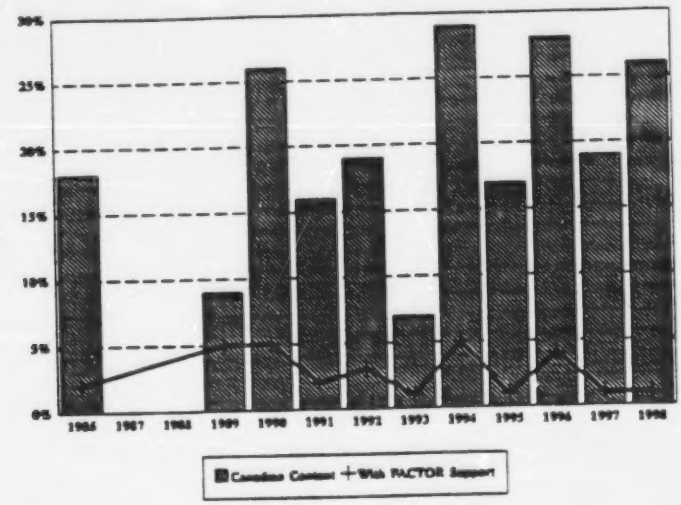
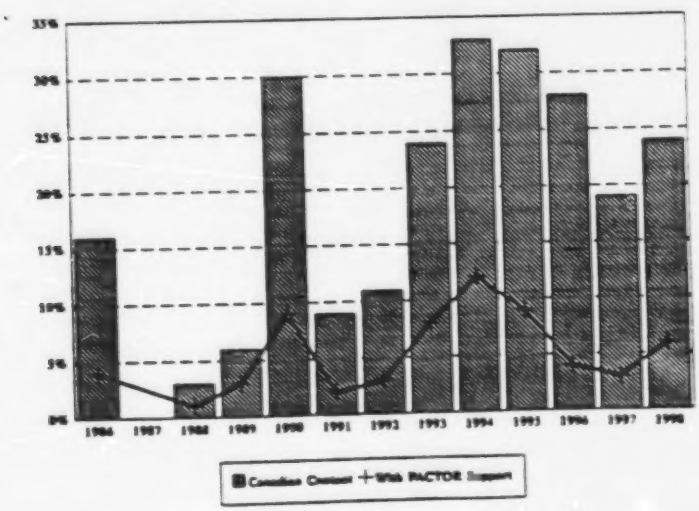


Figure E.4

Top Radio - Country Music
As % of Total Number of Compiled Top Albums



Successful Sales Charts

The sales charts from 1986 to 1998 (see Figure E.5) indicate improved results for albums with Canadian content, although to a lesser degree than with the radio hit parades. According to this trend, the share of Canadian albums in successful sales went from 12%/13% to 17%/18%.

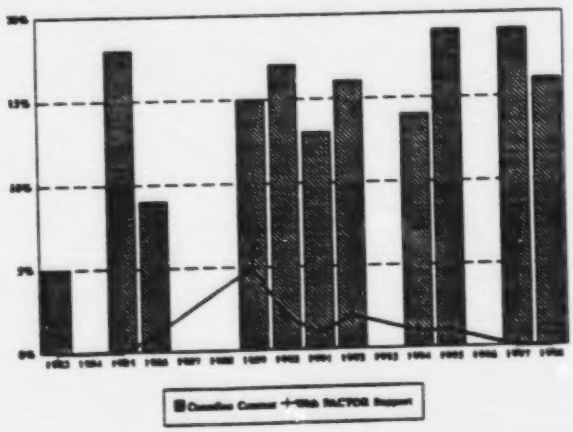
After reaching 5% of successful sales in 1989, the presence of SRDP/FACTOR albums on charts progressively diminished until it became almost insignificant. Thus, the *direct* impact of the program on successful sales for the anglophone charts was relatively weak over the evaluation period.

It would be useful to compare these results to those provided above in section E.1. While companies under Canadian control reinforced their position as main producers of albums with Canadian content, they did not consolidate their share of the market for long-term sales of albums with Canadian content (see Table E.5).

According to Statistics Canada data, companies under Canadian control (which receive SRDP support) experienced a large increase in their share of the market for sales of albums with Canadian content from 1984-85 (42%) to 1988-89 (60%), but afterwards experienced a progressive decrease (57%, 55%, 42%, 45%, and 44% for 1990-91 to 1993-94 and 1995-96 respectively[39]. These observations reinforce the conclusion that the SRDP had a weak impact on successful sales.

Figure E.5

Top-Selling Albums
As % of Total Number of Compiled Top Albums



[39] This information concerns all companies under Canadian control, but statistics for those from outside Quebec were not available; however, it can be assumed that the results for the latter group would not be more favourable than those for the sector under Canadian control.

E.2.2. Francophone Successes and SRDP/MusicAction Assistance

Radio Hit Parades

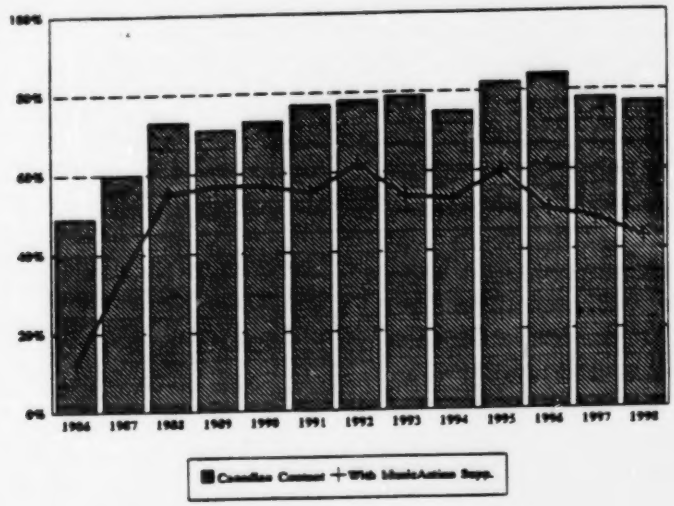
Over the last twelve years, albums by Canadian artists have increased and maintained their presence on the francophone radio hit parades. From about 50% in 1986, Canadian artists' successes represented 80% of all successes on the francophone charts in the 1990's ("top 100").

The successes enjoyed by Canadian artists is mirrored in that enjoyed by music from albums which received SRDP/MusicAction assistance (see Figure E.6). From 1986 to 1992, the evolution profile for successful music from SRDP/MusicAction albums was more or less similar to that of Canadian artists' successes on the francophone charts. However, it strayed markedly from this profile from 1992 to 1998, with the proportion of successful SRDP/MusicAction albums dropping. Over the period 1987-1992, 74% of albums by Canadian artists whose music was ranked in the "francophone top 50" and 71% of those whose songs were in the "top 51-100" were SRDP/MusicAction albums (see Table E.14). For the period 1987-1992, while maintaining a high level, the proportion of SRDP /MusicAction albums was lower (65% of albums by Canadian artists ranked in the "top 50" and 62% in the "top 51-100").

The great majority of SRDP /MusicAction albums whose music was ranked in the "top 50" were produced by independent production companies (79% for the period 1987-1992 and 88% for the period 1993-98) and marketed by record companies (85% for the period 1987-1992 and 90% for the period 1993-98). Albums which were self-produced by artists represented 10% of SRDP /MusicAction albums with radio success over the period 1987-92 and 9% over the period 1993-98. Albums which were marketed by artists represented a slightly lower proportion, i.e. 7%, during these two periods.

Figure E.6

Top Radio - Francophone (All Categories Included)
As % of Total Number of Compiled Top Albums (100)



Source: EEC Canada compilation from retrospective database prepared by ADISQ

Table E.14: Albums by Canadian Artists on Francophone Radio Hit Parades According to Category of Producer, 1987-92 and 1993-1994

POSITION 1 to 50	1987-92						1993-96					
	Total number of titles from an album appearing once or more on the charts		Number of different albums that titles come from		MusicAction support for album production		Total number of titles from an album appearing once or more on the charts		Number of different albums that titles come from		MusicAction support for album production	
	number	%	number	%	number	%	number	%	number	%	number	%
Majors	10	4.3%	6	5.5%	1	1.2%	21	8.9%	12	11.5%	0	0.0%
Independent production companies	164	71.0%	76	69.7%	64	79.0%	166	70.6%	70	67.3%	60	88.2%
Self-production	25	10.8%	12	11.0%	8	9.9%	32	13.6%	16	15.4%	6	8.8%
Co-production	16	6.9%	5	4.6%	5	6.2%	13	5.5%	4	3.8%	2	2.9%
Unidentified	16	6.9%	10	9.2%	3	3.7%	3	1.3%	2	1.9%	0	0.0%
Total	231	100.0%	109	100.0%	81	100.0%	235	100.0%	104	100.0%	68	100.0%
POSITION 51 to 100												
Majors	10	5.2%	6	5.4%	1	1.3%	30	13.2%	16	11.9%	1	1.2%
Independent production companies	136	70.8%	76	67.9%	63	78.8%	158	69.6%	94	69.6%	75	89.3%
Self-production	29	15.1%	16	14.3%	8	10.0%	31	13.7%	18	13.3%	4	4.8%
Co-production	5	2.6%	3	2.7%	3	3.8%	6	2.6%	5	3.7%	4	4.8%
Unidentified	12	6.3%	11	9.8%	5	6.3%	2	0.9%	2	1.5%	0	0.0%
Total	192	100.0%	112	100.0%	80	100.0%	227	100.0%	135	100.0%	84	100.0%

Source: special ADISQ compilation within the framework of the SRDP evaluation

Sales Charts

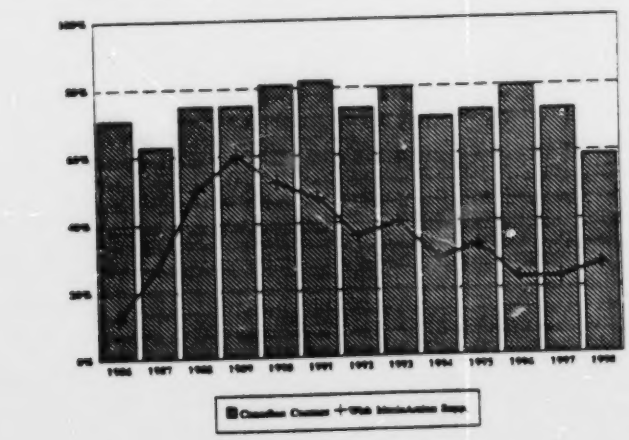
As with the radio hit parades, the percentage of albums by Canadian artists which were ranked among the best-sellers on the francophone charts increased to 80% from 1986 to 1991, a period which corresponds to the first five years of the SRDP. However, albums by Canadian artists already represented more than 60% of the sales charts in 1986 and 1987: the improvement of the positioning of albums by Canadian artists was therefore less remarkable than for radio hit parades.

Afterwards, however, this increase was not maintained as was the increase for the radio hit parades. The percentage of albums by Canadian artists ranked on the sales charts decreased markedly from 1991 to 1998, to as low as slightly under 60% during the last year. Over the 12-year period of the SRDP, there was not a marked and lasting improvement in the positioning of albums by Canadian artists among the best sellers on the francophone charts.

Furthermore, while SRDP/MusicAction albums represented up to 60% of the sales charts in 1989, i.e. more than 80% of albums by Canadian artists which were ranked that year, a significant decrease took place progressively over the years. In 1996, 1997, and 1998, between 20% and 30% of albums ranked on the francophone sales lists were albums whose production had received SRDP/MusicAction support. The drop was more marked than the one observed in the positioning of albums by Canadian artists (see Figure E.7).

Figure E.7

Top Sales - Francophone (All Categories Included)
As % of Total Compilation



75% of albums in the "top 20" over the period 1987-1992 and 80% of those over the period 1993-1998, were by Canadian artists. SRDP/MusicAction albums represented 56% of the number of different albums which had appeared once or more on the "top 20" sales charts from 1987 to 1992, but 46% over the period 1993-1998 (see Table E.15).

Furthermore, from one period to the next, more albums by Canadian artists produced by the majors appeared on the francophone "top 20" charts (4 and 10 appearances, i.e. 4% and 10% of the total number of appearances of albums by Canadian artists).

The progress of the majors was accompanied by a marked decrease in appearances of albums produced by independent production companies (71% to 65%), which was due to a slight increase in appearances by albums that were self-produced by Canadian artists (19% to 22%).

The drop in the relative significance of SRDP/MusicAction successes in the "top 20 /sales" is partly due to improved results for the majors with respect to the independent sector (in particular with respect to the "independent production companies"), but it is also explained by the fact that a larger proportion of self-produced albums (which were more numerous over the second period) and co-produced albums were successful without benefiting from SRDP/MusicAction assistance. While 57% of the self and co-produced albums by Canadian artists appearing at least once on the "top 20" charts over the period 1987-1992 were albums which had received SRDP support, the proportion was only 22% for the period 1993-98 (however, from one period to the next, 59% to 63% of albums produced by independent production companies were SRDP/MusicAction albums.

The sales charts results were influenced by marketing techniques (see Table E.16). Notably, the share of the total number of appearances on the charts by albums marketed by independent production companies is significantly higher than the share represented in production: for 1987-92, 71% of appearances involved producers, but 84% of appearances involved record companies, and for 1993-98, 66% and 78% respectively. The same observation can be made with regard to only the different albums which appeared at least once on the charts.

Conversely, during the period 1987-92, albums which were self and co-produced equalled 23% of the total appearances in the "top 20", while albums which were marketed or co-marketed by artists represented 10%. For 1993-98, these proportions were 24% and 9% respectively.

Table E.15: Appearances of Albums by Canadian Artists on the Francophone Sales Charts According to Category of Producer, 1987-92 and 1993-1994

POSITION 1 to 20	1987-92						1993-96					
	Album appearances		Different albums appearing once or more on the charts		Album production financed by MusicAction		Album appearances		Different albums appearing once or more on the charts		Album production financed by MusicAction	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Majors	4	4.4%	2	2.9%	0	0	10	10.4%	7	10.3%	0	0
Independent production companies	64	71.1%	51	75.0%	30	78.9%	63	65.6%	43	63.2%	27	87.1%
Self-production	17	18.9%	11	16.2%	5	13.2%	21	21.9%	16	23.5%	3	9.7%
Co-production	4	4.4%	3	4.4%	3	7.9%	2	2.1%	2	2.9%	1	3.2%
Unidentified	1	1.1%	1	1.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	90	100.0%	68	100.0%	38	100.0%	96	100.0%	68	100.0%	31	100.0%
POSITION 21 to ...												
Majors	3	5.4%	3	5.7%	0	0.0%	3	3.6%	3	3.8%	0	0.0%
Independent production companies	34	60.7%	31	58.5%	19	70.4%	55	65.5%	52	65.0%	22	88.0%
Self-production	14	25.0%	14	26.4%	3	11.1%	20	23.8%	19	23.8%	2	8.0%
Co-production	2	3.6%	2	3.8%	2	7.4%	3	3.6%	3	3.8%	1	4.0%
Unidentified	3	5.4%	3	5.7%	3	11.1%	3	3.6%	3	3.8%	0	0.0%
Total	56	100.0%	53	100.0%	27	100.0%	84	100.0%	80	100.0%	25	100.0%

Source: special ADISQ compilation within the framework of the SRDP evaluation

Table E.16: Appearances of Albums by Canadian Artists on the Francophone Sales Charts According to the Category of Marketing Agent, 1987-92 and 1993-1994

POSITION 1 to 20	1987-92						1993-94					
	Album appearances		Different albums appearing once or more on the charts		Album production financed by MusicAction		Album appearance		Different albums appearing once or more on the charts		Album production financed by MusicAction	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Majors	5	5.6%	3	4.4%	0	0.0%	12	12.5%	8	11.8%	0	0.0%
Record companies	76	84.4%	58	85.3%	35	92.1%	75	78.1%	52	76.5%	28	90.3%
Artist's label	9	10.0%	7	10.3%	3	7.9%	8	8.3%	7	10.3%	2	6.5%
Co-marketed	0	0.0%	0	0.0%	0	0.0%	1	1.0%	1	1.5%	1	3.2%
Unidentified	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	90	100.0%	68	100.0%	38	100.0%	96	100.0%	68	100.0%	31	100.0%
POSITION 21 to ...												
Majors	5	8.9%	5	9.4%	2	7.4%	5	6.0%	4	5.0%	1	4.0%
Record companies	36	64.3%	33	62.3%	18	66.7%	59	70.2%	57	71.3%	21	84.0%
Artist's label	11	19.6%	11	20.8%	3	11.1%	16	19.0%	15	18.8%	2	8.0%
Co-marketed	2	3.6%	2	3.8%	2	7.4%	3	3.6%	3	3.8%	1	4.0%
Unidentified	2	3.6%	2	3.8%	2	7.4%	1	1.2%	1	1.3%	0	0.0%
Total	56	100.0%	53	100.0%	27	100.0%	84	100.0%	80	100.0%	25	100.0%

Source: special ADISQ compilation within the framework of the SRDP evaluation

Certifications

Canadian sales successes are recognized by "certifications" obtained at different sales levels according to the number of copies sold. These "certifications" provide a better idea of the relative success obtained by the different categories of agents.

About 85.5% of the total number of francophone albums which obtained certifications from 1987 to 1998 were marketed by companies under Canadian control, which produced 87.5% of them. The majors obtained 2 of the 3 certifications for over 400,000 copies sold. However, companies under Canadian control received a large majority of the certifications for 200,000 to 300,000 copies sold (13 out of 20, i.e. 65%) and a very large share of those for 50,000 to 100,000 copies sold (119 out of 129, i.e. 92%, as producers, and 116 out of 129, i.e. 90%, as marketing agents).

Recognized and identified through certifications, successes of companies under Canadian control were mainly produced by record companies: 77% of certifications for 200,000 to 300,000 copies sold and 71% of those for 50,000 to 100,000 copies sold. This positioning is markedly improving in terms of marketing: the total number of certifications for 200,000 to 300,000 copies sold obtained by the independent francophone sector from 1987 to 1998 involved albums by Canadian artists marketed by record companies; the latter marketed 84% of albums by Canadian artists, apart from those marketed by the majors which received certifications for 50,000 to 100,000 copies sold. Those certifications obtained by self-produced albums (31) marketed by artists (17) were situated almost exclusively below the level of 200,000 copies sold (see Tables E.17 and E.18).

Table E.17: Certifications for Albums by Canadian Artists According to Category of Producer, Francophone Vocal Music, 1987-98

CERTIFICATIONS (Number of copies sold)	FOREIGN MAJORS		INDEPENDENT SECTOR PRODUCTION (Quebec)								TOTAL		"MusicAction" Albums (production support)	
			Record companies		Co-production*		Self-production		Subtotal					
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
700,000 to 400,000	2	66.7%	1	33.3%	0	0.0%	0	0.0%	1	0.0%	3	100%	0	0.0%
300,000 to 200,000	7	35.0%	10	50.0%	2	10.0%	1	5.0%	13	65.0%	20	100%	12	60.0%
100,000 to 50,000	10	7.8%	84	65.1%	4	3.1%	31	24.0%	119	92.2%	129	100%	62	48.1%
Total	19	12.5%	95	62.5%	6	3.9%	32	21.1%	133	87.5%	152	100%	74	48.7%
"MusicAction" Albums (production support)	1	1.4%	61	82.4%	4	5.4%	8	10.8%	73	98.6%	74	100%		

*an independent record production company and an artist in self-production were associated for the production of one album

Table E.18: Certifications for Albums by Canadian Artists According to Marketing Agent, Francophone Vocal Music, 1987-98

CERTIFICATIONS (Number of copies sold)	FOREIGN MAJORS		MARKETING INDEPENDENT SECTOR (Quebec)								TOTAL		"MusicAction" Albums (production support)	
			Record companies		Co-marketed*		Artist's label		Subtotal					
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
700,000 to 400,000	2	66.7%	1	33.3%	0	0.0%	0	0.0%	1	33.3%	3	100%	0	0.0%
300,000 to 200,000	7	35.0%	13	65.0%	0	0.0%	0	0.0%	13	65.0%	20	100%	12	60.0%
100,000 to 50,000	13	10.1%	98	76.0%	1	0.8%	17	13.2%	116	89.9%	129	100%	62	48.1%
Total	22	14.5%	112	73.7%	1	0.7%	17	11.1%	130	85.5%	152	100%	74	48.7%
"MusicAction" Albums (production support)	2	2.7%	65	87.8%	1	1.4%	6	8.1%	72	97.3%	74	100%		

*an independent album production company and an artist in self-production were associated for the marketing of one album

Source: special ADISQ compilation within the framework of the SRDP evaluation

SRDP/MusicAction's Effect on Top 40 Music

Although the information presented here shows a strong representation by albums by Canadian artists and independent labels on the 'radio' and 'sales' hit parades and in overall certification for French-language vocal music, we must situate it within the larger market to interpret it properly. The competitive positioning of Canadian artists and Canadian-owned companies in the French-language sector of the recording industry cannot be evaluated without taking the elements "audience" and "buyers" into account. This audience tunes in to English-language shows and radio stations and buys English-language music recordings, that are produced and marketed mainly by the majors. Therefore, lacking sufficient data to delineate overall market trends, the information must be interpreted with some caution.

The net trend towards improved positioning of singles by Canadian artists on albums that are in good measure "SRDP/MusicAction" albums and the standing on the French-language 'radio' hit parades tend to indicate that the SRDP has directly affected obtaining such positive results. However, we must recognize that if the advances made may be attributed in good measure to the SRDP (not only via its assistance programs for individual production and marketing projects, but also through its support of major events), keeping in mind its size in relation to total public funding, we cannot forget that the independent concert and record industry in Quebec has also benefited from comparatively generous provincial public funding over the years (SOGIC and SODEC since 1995). Reinforcement by independent distribution, itself having benefited from conditions rendered more favourable by the SRDP, has also played a role and contributed to the advances noted. On the other hand, the decrease in the proportion of "SRDP/MusicAction" albums among the best-sellers and among hit singles by Canadian recording artists, a moderate but clear trend that began in 1993, tends to indicate that the direct positive effect of the SRDP on hit radio must have slackened somewhat.

Regarding hits on French-language top 40 album 'sales,' the SRDP does not appear to have had a marked and lasting effect. The SRDP seems to have had some effect for its first few years during which hit albums by Canadian artists and hit "SRDP/MusicAction" albums kept pace. However, since the first could not maintain the advances noted and the second showed a sharper decrease, the direct effect of the SRDP on hits on French-language top-40 lists of "best-sellers" has certainly seen a tendency to diminish during the '90s.

This being so, even if there has been a marked decrease, "SRDP/MusicAction" albums still represent, for the last few years, a considerable proportion of the hits by Canadian artists on the French-language 'best-sellers' lists (around 30% to 40%). We can thus

presume that without the support of the SRDP/MusicAction (case in point), the number of albums by Canadian artists that made it onto the French-language best-sellers' lists would have been less during this period particularly because of a weaker showing by albums on independent labels. This leads us to determine that SRDP/MusicAction has maintained a positive effect that, however, weakens progressively over time.

This, combined with the more significant gains in hit 'radio', gives a glimpse of the program's limitations, in terms of relevance of orientation and size of budget, regarding its impact on marketing. In that context, the findings presented here confirm a higher success rate for self-manufactured hits on the best-sellers lists but, at the same time, suggest that record companies are better at marketing. On the other hand, accreditation data indicates the limitations of self-manufactured hits as compared to those of the record companies.

The adjustment towards reinforcing national marketing assistance that began in 1997-98 seems to be in line with needs and constraints.

E.3. EFFECT BY MUSIC STYLE AND REGION

E.3.1. Music style

The need to "increase the number of sound recordings of classical music, jazz, experimental music and folk music" was identified in 1985, alluding to the fact that these "markets represent only 9% of sales in Canada."

As Table E.19 shows, the market share of the target categories (classical, jazz, country and traditional) was then, for all practical purposes, significantly higher than the 9% mentioned here: rather, 14.5% (in 1984-85). Ten years later, the market shares of these various categories were approximately the same (and made up a total of 15.5% in 1995-96). However, 'classical' and 'jazz' had noticeably increased their market share from 1984-85 to 1992-93, only to lose ground in the following years (see 1995-96). 'Country-traditional' music also made gains from 1984-85 to 1988-89; after a marked pull-back at the beginning of the '90s (1990-1993), it later gained back most of its market share (1994-96).

From the middle of the '80s (1984-85 to 1993-94 and, more particularly at the beginning of the '90s, 'pop-rock' music, while still maintaining a markedly dominant share of the total market, saw its market share shrink significantly (from around 79% in 1984-85 to 71% in 1993-94) in favour of the other music categories. As shown in Table E.20, the downward trend of the 'pop-rock' market share also appears to correspond to a slow-

down in the total number of 'pop-rock' albums released, the other music categories – excepting 'country-folk' – tending to increase their presence. However, while available figures do not permit us to determine if the trend has reversed, the 'pop-rock' market share had bounced back noticeably in 1995-96 (76%).

When statistics show slight variations (1%, 2%) in the market share of a particular music category, we must interpret the findings with some caution, given the margins of error. However, the shrinkage in the 'pop-rock' music share of the market between 1984-85 and 1993-94 and the corresponding overall increase in the other music categories' shares are striking enough to be statistically significant. This mirrors a market trend to present a moderately higher degree of variety.

Consequently, given that the share of the other music categories is substantially lower than 'pop-rock', the gain in market share (about 8% between 1984-85 and 1993-94) reflects a highly significant sales growth differential for the period, to the advantage of these other categories. To what extent is this phenomenon due to the SRDP's positive effect on the various types of music? Studying the share development of Canadian content and Canadian artist albums among market releases by music category (Table E.20) provides no information about this. However, considering that the configuration of applications by type corresponded significantly to market distribution, and that the acceptance rate of applications has, historically, been notably higher for the other categories as a group than for 'pop-rock', the SRDP has certainly played a positive role with respect to diversity, and particularly the variety of music on albums with Canadian content or by Canadian artists. Its support of specialized associations, in Country music for example, must also be taken into account.

In more specific terms, if the SRDP has had a positive effect on the development of the industry's independent 'classical music' sector, we must remember that this category represented only 1.9% of the submissions received from FACTOR, while their acceptance rate was 32%. These rates were 4.6% and 77% respectively for MusicAction. On the whole, and while the element of market language is less important for classical than for vocal music (geo-linguistic segmentation is less important in this case), the allocation of SRDP assistance for this music category does not appear to have been sufficiently in keeping with the criteria of market share and potential for development.

Table E.19: Market Share by Category of Music (1987-1996)

SALES SHARE BY CATEGORY	1982-83	1984-85	1986-87	1988-89	1990-91	1992-93	1995-96
Pop/ Rock	77.8%	78.8%	74.8%	75.%	71.8%	71.6%	75.8%
Classical and related genres	5.8%	5.2%	7.5%	6.2%	8.1%	9.8%	5.7%
Jazz	1.8%	1.7%	2.3%	2.1%	2.9%	3.1%	2.3%
Country and Traditional	7.9%	7.6%	8.1%	11.3%	6.9%	7.0%	7.5%
Children's	3.1%	2.8%	3.1%	1.6%	2.0%	2.8%	3.0%
Others	3.6%	3.7%	4.1%	2.9%	8.2%	5.6%	5.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Sub-total Classical + Jazz + Folk	15.5%	14.5%	17.9%	19.6%	17.9%	19.9%	15.5%

Table E.20: Market Releases by Category of Music (1987-1996)

MUSIC CATEGORIES	1984-85		1993-94		1995-96	
	Share of Total New Albums Released in Canada	Share of Canadian Content Albums in Each Music Category	Share of Total New Albums Released in Canada	Share of Canadian Content Albums in Each Music Category	Share of Total New Albums Released in Canada	Share of Canadian Content Albums in Each Music Category
Pop/ Rock Music	58,2%	13,8%	50,3%	10,7%	49,4%	11,0%
Classical and related	15,4%	17,2%	19,0%	4,9%	19,7%	7,0%
Jazz	6,8%	10,9%	6,1%	5,4%	9,3%	7,9%
Country and Folk	8,8%	24,7%	7,7%	23,2%	5,8%	19,5%
Children's	1,6%	72,9%	3,1%	12,2%	1,8%	19,8%
Others	9,3%	16,9%	13,9%	17,8%	14,0%	24,1%
Total	100%	16,3%	100%	11,3%	100%	12,4%

E.3.2. Regional Communities

Given the geographic concentration of the Canadian sound recording industry around the poles of Toronto, Montreal, and Vancouver, and the market and business advantages that prompt companies to polarize in this way, the overall positive impact of the SRDP on the development of the independent sector by increasing the core of larger companies (whose profitability has improved significantly and whose total sales have

increased more than those of the foreign-owned group) has been felt mainly in Ontario, Quebec and British Columbia.

Consequently, the increase in the pool of production companies is a development that has occurred across the various regions of Canada, of course to varying degrees, but always significantly. According to the regional assistance profile (Section C.5), the SRDP has contributed to this. In fact, we can observe: (i) first, that the regional distribution of submissions received by FMC on the whole represents quite well the distribution of the independent Canadian sound recording sector across these regions (the SRDP has had an overall delivery that made the program accessible to business operators across Canada according to their geographic location and the distribution of the business activity) and (ii) second, in terms of funding accessibility, the acceptance rate for submissions from Ontario is substantially less than for British Columbia and Quebec, and the other provinces as a group.

Nonetheless, the positive effect on the development of the pool of small businesses and production in the various regions must be offset by the decrease in average sales figures of these small businesses whose total sales increased only slightly (as %) compared to larger companies.

The particular difficulties these companies face -- outside large urban areas -- in terms of accessibility to direct contact, pools of talent in all fields (notably in emerging trends), the services infrastructure, and organizing tours, are conditions that are intrinsically dependent on the forces that govern regional economic organization from the point of view of distance. One of the issues in providing assistance touches on smoothing delivery. In this sense, it is possible that the SRDP did not sufficiently maximize its effect in provinces other than those where the record industry is already concentrated, for example, late in the game extending assistance for promotion and marketing on the national level. Similarly, widening the program to support technological development, notably through developing the capacity to exchange information, networking, and Internet promotion-marketing, would by its very nature have a positive effect on all of the provinces (to lessen the difficulties mentioned above).

Last, we must note that the SRDP, through its assistance to professional/sector associations and to regional/provincial events, notably via its "Business Development" program, has contributed significantly to building and maintaining a collective support services infrastructure across Canada. However, assistance on this level calls for taking into greater account the coincident conditions of any complementary role that the provinces might play and the effective limits of resources that are spread too thin (regional structures perhaps being the assistance mechanisms to favour), as opposed to other conditions.

E.3.3. Complementarity with Provincial Programs

Other than the SRDP, Canadian record industry artists and businesses have also benefited over the years from access to various assistance programs offered by their provincial governments, notably; Alberta, British Columbia, Manitoba, Ontario, Quebec and Newfoundland. The programs offered vary from province to province for extent of assistance (relative to the size of the music industry in that province), and variety and type (assistance for touring, video and record production, marketing..). The assistance can be further oriented towards supporting artists or businesses (or both), towards 'popular,' or even more targeted, 'cultural' music.

What are the main parameters for looking at the issue of SRDP complementarity with provincial programs (the conditions, the general principles, and the limits for accounting for the element of complementarity in terms of managing the SRDP)?

The Concept of Complementarity

It is of course desirable that the SRDP and the assistance programs set up by the provincial governments complement each other harmoniously and effectively to help to attain the general SRDP objectives and any other more specific objectives that might contribute to achieving them.

Business development generally occurs not because of the existence of one factor or the evidence of a condition, but rather because series of favourable conditions and factors combine its activities in complementary and synergistic play within the system of interrelations for and among the causes of that business. By corollary, development is usually hampered by various constraints that work together and tend to support each other mutually until sufficient of them are neutralized at the same time so as to allow the development process to begin around a sizable enough industry core group.

Thus, the idea of complementarity is defined by sectors, activities, targets and complementary mechanisms regarding neutralizing constraints to better achieve an objective. On limited resources, the art of assisting development is to configure programs that will act effectively on the specific constraints it is necessary to neutralize to achieve a desired effect, keeping in mind that various other existing programs may already be used to neutralize some of them.

The SRDP and Provincial Diversity

The SRDP is a business development program with a national vocation and scope. As such, it is called on to act along the lines that govern the Canadian record industry and market and define the key constraints to development under widely varied conditions.

Therefore, the SRDP designers built the program on a plan that is mainly structured by program unit/complementary assistance programs to neutralize limitations on financing by type of activity of the companies in the independent sector: production and marketing, video and album production, national and international marketing.

Consequently, the SRDP was designed and put in operation, in such a way as to have some flexibility to adapt and tailor its actions to reply to: (I) market conditions and widely differing corporate structures between the English- and French-language sectors of the Canadian record (and event) industry (see FACTOR and MusicAction) and, (ii) to divergent product/market conditions by music category, together with concerns for equity and diversity (differences in the conditions for eligibility and assistance, internal guidelines for granting funding by the implementing agency).

With respect to 'regional dimensions', the level on which constraints and needs are more specific, program managers are asked to take the different contexts and situations into account which, in itself, adopts internal assistance distribution criteria (but not elements of programs designed to neutralize constraints specific to the provincial industries/markets).

In that context, the orientation and structure of the SRDP, as a national program, must meet certain requirements and levels of effectiveness, notably regarding ineffective application of its actions in terms of cost-advantage. From this point of view, the implementation of adapted and tailored actions, the better to meet various specific needs on the provincial level, presents its own limitations. This being the case, the question is less of an issue is the provincial programs already complete the SRDP.

Complementarity of the SRDP and the Provincial Programs

The problem of complementarity raises itself incidentally in different ways and depending on the issues of unequal scope based on the level of provincial commitment (in terms of the extent of assistance relative to the size of its sound recording and event industry), and depending on the breadth of the provincial commitment relative to the SRDP's in terms of the assistance benefiting provincial agents: the issues of non-complementarity

are usually less important, of inefficient program cross-influence as much as of ineffective resource distribution, if total public assistance comes, for example 10-90 from the two sources rather than 50-50.

The complementarity potential of provincial programs to the SRDP is settled in principle by:

(i) their load gathering of fields /sectors /target clienteles /related mechanisms with regard to specific needs but pertinent with regard to the SRDP objectives;

(ii) the mobilization of resources oriented to serving the same goals /sectors /activities /clienteles /projects as the SRDP, but contributing in this way to a better meeting of the needs (feasibility of a larger number of projects, notably in cases of indivisibility, for example, staging large concerts, tours...).

The main risks and areas of concern for the SRDP lie less in any lack of complementarity due to an inefficient spread of resources than in the existence of cross-influences and overlapping, such as provincial programs, that would naturally lessen the effectiveness of the SRDP. The question of complementarity then necessarily becomes an issue.

How can the SRDP try to respond? To what extent is adapting the SRDP to rule out these negative cross-influences possible (unilaterally or jointly by agreement with the provincial authorities) and justified within the framework of the SRDP as a national program and regarding its own levels of effectiveness?

So, the issue of complementarity comes up practically speaking with greater clarity when provincial assistance is significant relative to the SRDP's in that province and when cross-influences and overlaps that impede the SRDP exist; but the issue raises the question of acceptable possibilities for adapting the SRDP.

The Case of Quebec

The SODEC is a major assistance agency for the Quebec music industry. In 1998-99, the SODEC committed $3.8 million to its assistance program for record and events businesses, $6 million for all of its subsidy and refundable assistance programs in the sector, apart from assistance under its financing and tax credit programs. In that year, the overall extent of assistance was greater than the total SRDP assistance for the record and events industry in Quebec (around $4 million).

The MusicAction envelope addresses a French-language sector of the industry that is massively concentrated in Quebec. This opens the way for flexibility of adaptation with a view to establishing a good complementarity with Quebec programs, insofar as the SRDP/MusicAction can build its programs/operations to meet its responsibilities vis-à-vis the French-language sector in Canada.

The SODEC also takes a business approach and assists to a good extent the same business, events and institutional clientele. Its actions may be complementary to the SRDP if they help to increase assistance for the same goals as the SRDP, among the same target clienteles (and beneficiaries). If it is true, in this respect, that there exists a noteworthy complementarity, it is difficult to evaluate it given the SODEC's different approach.

In light of this, the SODEC's 'company/business plan' approach, the variety of the types of mechanisms it offers, the elements of assistance for developing abilities and markets that it opens up on a company basis (rather than on a product/project basis like MusicAction) forms part of a business development assistance package more comprehensive than the SRDP's.

It is difficult to discern/split up the effective roles of the SRDP's and the SODEC's programs/mechanisms and their level of complementarity, given the varying approaches (company-business plan / project-album-activities). On the other hand, the more open and clearer approach of the SODEC (regarding mechanisms and business assistance), as well as the funds committed, are factors favourable to confirming its position.

From a general point of view, it might be worth considering the issue of possibly better adapting the SRDP itself directly to the different types of business contexts, trying for complementarity with provincial programs being only one element.

E.4. SYSTEMATIZING STATISTICS GATHERING

How could the various sources of statistical information (CRTC, Soundscan, Broadcast Data System, Statistics Canada) be organized and used to evaluate the SRDP's effect and periodically provide the DCH with relevant information / barometers about its performance?

To manage efficiently, the SRDP ought to have a performance framework that defines the appropriate indicators for measuring periodically the results of both the general and more targeted objectives of the SRDP's program units and programs. To measure these indicators, it is necessary to implant an information system to assemble and organize the required statistical data adequately. Particularly important to determine is how the various sources of statistical information about the record industry might be grouped and utilized.

The types of data the information system requires are not only sectional. The information system ought to gather 3 data groups:

- sectional statistical data on the Canadian market and recording industry, the independent sector and products by Canadian artists;
- statistical data on the characteristics and performance of SRDP beneficiaries;
- data on the type of assistance these beneficiaries receive.

Available data should make it possible to determine the relationships between these levels.

The question raised concerns the first point. Among the sectional statistical data useful for the SRDP information system, some is contained in the statistical output the sources already deliver. However, these sources' interest potential for an SRDP information system is not limited to the current output that has various restrictions related to the variety of the types of indicators used, the categories of agencies or products to which they apply and to the level of aggregation that defines these categories. The potential depends on the possibilities that these sources' primary data bases offer for generating a variety of other statistics needed to set up performance barometers that would be useful to the SRDP.

It is necessary to weigh the cost-advantages among the possible arrangements with these sources to determine whether the most efficient way to proceed with that part of the compilations needed is done by Canadian Heritage or by the sources themselves.

Consequently, it is worth noting -- in the context of data gathering -- that existing sources do not necessarily have all the key types of data required and Canadian Heritage can consider either developing its own primary data gathering or arranging with existing sources to adapt their data gathering.

The types of sectional statistical data needed are:

- data on company characteristics and performance

  - output / market releases and Canadian content,
  - extent and structure of income, Canadian content and geographical markets
  - extent and structure of costs.
  - profit and loss,
  - financial position,
  - catalogue,
  - employment,
  - public assistance...

  The data should allow for grouping by category, or be provided by category group by company size, music style, province of domicile, ownership...

- data on radio broadcast and radio standing and sales, in such a way as to position Canadian hits.

The information system should allow for measuring results against expectation, following the development of indicators relative to objective and evaluating program effect.

For data on business characteristics and performance, *Statistics Canada* is the main existing reference source. However, it is worth remembering:

(i) first, that surveys of the sound recording industry by Statistics Canada are made every other year; for purposes of the SRDP's sectional follow-up, this period is too long (it would be necessary to have an annual survey);

(ii) second, that even with specialized sorting, Statistics Canada cannot provide certain performance indicators that it would be important for the SRDP to follow; for example, the size of regional or provincial markets, performance indicators by company size and specialty (by music category) in the Canadian-owned sector. As well, it is important to have indicators on company financial position and more

complete data on the capacities of the companies;

(iii) third, that even if Statistics Canada meets all of the desired survey criteria, Canadian Heritage would have greater autonomy and flexibility if it made and managed its own standing/periodic surveys. In this light, such a data base would allow it to develop its own business simulation model, with a view mainly to evaluate and compare the effect of different scenarios and types of assistance mechanisms;

(iv) fourth, that billing by Statistics Canada for the type of services required is significant (at least, based on the proposal requested in the context of this study for sorting by company group).

Various systems for organizing the gathering of this type of data are possible. One combination that might be preferable is:

(i) to make an agreement with Statistics Canada to obtain the necessary overall data on the sector every other year in a pre-arranged format;

(ii) to undertake every second year, through Statistics Canada, a survey of the independent sector to set up, and update annually, a data base on the independent sector complementary to Statistics Canada's output.

It would also be possible, in a more limited way, but easier to gather and whose results should remain statistically useful given the SRDP's broad client base, to ask beneficiaries every year as a condition of assistance to complete a survey (the questionnaire could be of the type used for the purposes of this study).

Regarding the data on radio and sales hits, the gathering format used for this study could be taken up on an annual basis by arrangement with The Record and the ADISQ.

F. MAIN RESULTS AND RECOMMENDATIONS

F.1. THE IMPACT OF THE SRDP AND ITS DETERMINING FACTORS

Impact

The present study concludes that the SRDP has been, since its set-up in 1986, a success in terms of its own objectives, in that it contributed mainly to:

(i) the increase in the number, quality, and availability of albums by Canadian artists and albums of Canadian content released on the market;

(ii) the development of the independent sector under Canadian control through the widening of the core of big companies whose profitability significantly improved and whose total sales are higher than those of the group under foreign control;

(iii) the maintenance of market shares (that, without SRDP support, would probably have experienced marked slides) for albums with Canadian content and for the segment of companies under Canadian control;

(iv) the support of variety in production according to types of music, including specialized music, and according to regions (more than would have been evident without SRDP support);

(v) the appreciable number of Canadian successes in radio broadcasting and sales.

However, several aspects of its impact were relatively modest, such as:

(i) the insufficient consolidation of the independent segment, including the biggest companies;

(ii) the difficulties in maintaining improvements first experienced in radio broadcasting successes;

(iii) the smaller impact in terms of sales successes, in particular involving albums on the anglophone hit parade;

(iv) the decrease in the average turnover of small companies whose numbers have increased over the years but whose total sales have experienced less of an increase.

Effectiveness

Over the years, the administrators have brought about noteworthy improvements. For instance, the administrative costs have been contained, if not reduced, in relation to the volume of activities. However, the study indicates that the impact could have been limited by different factors of ineffectiveness, such as:

(i) the lack of clarity of the general strategic orientations, in terms of coherence/complementarity and exercising of necessary choices to avoid scattering;

(ii) the inadaptation of the limited approach per project;

(iii) the absence of a profitability framework serving as a reference to follow results and guide required adjustments;

(iv) the modest impact of these adjustments in terms of the evolution of the industry, markets, technologies, and new needs in the independent sector;

(v) the use of instruments which did not allow the use of a lever to create a sufficient contribution of complementary resources and private investment (notably following the better security envisaged with the banking and risk capital sectors);

(vi) the lack of improvements necessary in order to develop an infrastructure and adequate information and analysis systems.

These factors are partly caused by a certain inadaptation of the organizational and management framework.

Resources and Reaching of Objectives

If more significant public resources had been mobilized in the program as it was designed and managed, its impact would probably have been greater, but considering the effectiveness of the results, productivity in terms of public funds management would not necessarily have been better ensured.

However, it is also necessary to look at the intrinsic constraints and limits on the expected impact of the program, which could also result from an insufficiency of mobilized resources, even given the hypothesis of more effective management. Questions about the appropriateness of resources should also be asked when considering improvements to ensure greater effectiveness for the SRDP.

The basic questions are:

(i) *what general and specific objectives should be met?*

(ii) *what levels of targeted results are considered necessary and sufficient to meet objectives, and what verifiable indicators can convey them?*

(iii) *to what extent is it conceivable to meet such objectives?*

(iv) *considering the constraints to be lifted, clientele to support, and available instruments, how should assistance be organized to effectively reach these objectives?*

Several contributors do not feel that it is possible to significantly influence the Canadian market share of albums by Canadian artists and companies in the independent sector under Canadian control. Others feel that it is conceivable through much more significant support.

In neither case would the effective allocation of public funds necessarily be satisfied.

Étude Économique Conseil feels that obtaining more significant and better ensured profits is conceivable for the following reasons:

(i) the Canadian repertoire's very small share of the market,
(ii) the SRDP's obtaining certain tangible results up to now despite organizational choices and their limits, and
(iii) the example of other countries such as France where the national repertoire is more widespread even though this is due to the majors.

Obtaining such profits represents a difficult challenge which can be met only through a significant increase in mobilized capital and resources. The SRDP's general objectives give the program the vocation to exercise a sector-based influence (i.e., with sufficiently marked and widespread impacts which are tangible and verifiable with indicators).

Initially, what were the impacts that could be expected from an annual subsidy of $5 million...

> ***... addressed to a Canadian-controlled group of many contributors, among them about a hundred sound recording companies with total sales of around $60 million (including $32.5 million in sound recording sales and $15.3 million in sales with Canadian content)***
>
> ***... in an industry worth about $360 million (1985-86) dominated by a handful of multinational companies under foreign control which realize close to 9/10ths of total recording sales (87.4%)?***

During the program's set-up, the annual assistance of $5 million represented 14% of sound recording sales by the group of companies under Canadian control, and this contribution was even more significant in terms of their sales of recordings with Canadian content (i.e. close to 30%).

However, the 1995-96 subsidy ($4.45 million) represented only 3.7% of sound recording sales that year, and 8% of sales with Canadian content made by companies under Canadian control.

The increase in assistance from 1997-98 on ($9.45 million) brought this contribution back up to a level of about 15% of the total of sound recording sales made by companies under Canadian control.

The drop in relative significance of assistance is also explained by the increase in the number of companies under Canadian control (which roughly represented the maximum base of potential requests). It went from approximately $40,000 per company in 1986-87 to about $15,000 in 1995-96.

The table below (F.1) establishes hypothetical scenarios of results and expected impact of the SRDP (such as they could have been defined during the program's design in 1985-86). It illustrates the type of general guidelines that should be established (based on a determination of resources required to reach defined results or on a determination of conceivable results given resources available). But here it is presented to show that obtaining truly significant results in terms of market shares of companies in the

independent sector and of albums by Canadian artists would have required very high results on behalf of these companies. Achieving these would not have been possible without a significant increase in investments and financing.

The 5 scenarios presented assume that the assistance had a significant lever effect on investment in production and marketing, because in the end, they indicate marked impacts on sales and market shares. It should also be noted that, considering the small size and the minor positioning of the independent sector at the time of the program's set-up, the expected impacts in terms of reinforcement were more clearly expressed in terms of growth and growth differential between groups under Canadian vs. foreign control, and products with Canadian vs. foreign content, rather than in terms of market share.

The first scenario will be used here as an example to explain Table F.1:

- Reference Hypothesis (expected evolution without the program for 10 years, i.e. 1995-96):
  - annual average growth of the market for the next ten years is estimated at 5.76%; in 10 years, the sector's sales would increase by 75%;
  - the group under Canadian control and the group under foreign control should grow at the same rate of 5.76% as well as their respective sales of products with Canadian and foreign content;
  - this growth applies starting in 1985-86 when:
    - *the group under Canadian control realized 12.6% of total sales (87.4% for the foreign group);*
    - *products with Canadian content represented 13.4% of total sales (foreign products 86.6%);*
- Hypothesis With Program (expected results with the program's set-up):
  - an average annual growth of 10% of sales for the Canadian group and 5% for the foreign group,
  - these growth rates also apply to products with Canadian and foreign content respectively (based on their sales structures from 1985-86);
- Impacts of the Program:

- the group under Canadian control would have expected sales multiplied by 2.6 in 10 years (instead of 75% without the program): the program would thus have contributed to increasing the sales of these companies by more than twice the estimated increase without the program (x 2.12);

- the reinforcement of the group under Canadian control, which is very clear through the growth-rate differential, can also be seen in comparison with the slight increase (63%) in sales experienced by the group under foreign control during the same prospective period;

- due to the higher commitment of the Canadian group to products with Canadian content, sales of products with Canadian content would also have grown more than twofold (x 2.06 at the average annual growth rate of 7.5%), with the differential impact of the program being an increase in sales of albums with Canadian content of 41% more than what could have been expected without the program;

- the market share of the group under Canadian control should reach 18.7% instead of 12.6% (maintained at this initial level without the program);

- the market share of products with Canadian content should rise to 15.8% within 10 years (compared to an initial 13.4% maintained without the program);

- according to the hypothesis that an annual injection of $5 million in public funds over the period would be necessary and sufficient to reach the expected objectives, the injection of $50 million over 10 years would have generated $120 million in additional sales for the group under Canadian control (i.e. a profit of $2.40 per dollar injected) and would have generated an additional $46 million for products with Canadian content (i.e. a profit of $0.92 per public dollar injected)[40].

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[40] "Productivity" is evaluated in units of dollars per sales generated for each dollar injected. Other productivity indicators can also be pertinent such as, for instance, taxes generated by these additional sales and the income tax related to the improvement in company productivity. Or, the productivity in terms of the lever effect of public assistance on private investments in the sector (in the first agreement in 1986 between the Government and FMC, an article stipulated that: *"FMC should provide the Ministry of Communications with the data needed to evaluate the profitability of the contribution as the present agreement is applied"*).

Table F.1: Hypothetical Scenarios / Growth Demands and Meeting of Market-Share Objectives

1985-86 BASE / 10-YEAR HORIZON	Scenario A.1	Scenario A.2	Scenario B	Scenario C.1	Scenario C.2
Initial Situation (1985-86) SALES	Industry $257 million Group Can. ctrl$32.5 million (15.3 cancon) Group foreign ctrl$224.5 million (19.2cancon) Cancon market share13.4% Group Can. ctrl market share12.6%				
Hypotheses of growth rates –Annual average sales without program (reference situation)	Uniform growth		Weakening group Can. ctrl & Cancon products		
Industry	5.76%		5.73%		
Cancon products	same		4.60%		
Group under Can. ctrl	same		same		
- Cancon products	same		same		
- Foreign products	same		same		
Group under foreign ctrl	same		5.89%		
- Cancon products	same		4.60%		
- Foreign products	same		6.00%		
Hypotheses of growth rates –Annual average sales with program	No impact sect-based growth market shift in fav. of comp. under Can. ctrl & Cancon prod.			Positive impact sect-based growth/ market shift in fav. of comp. under Can. ctrl & Cancon products	
Industry	5.76%	5.73%	5.73%	6.31%	6.63%
Cancon products	7.46%	9.03%	9.03%	10.81%	10.87%
Group under Can. ctrl	10.00%	9.40%	9.40%	10.58%	10.78%
- Cancon products	same	12.00%	12.00%	15.00%	15.00%
- Foreign products	same	6.50%	6.50%	4.60%	5.20%
Group under foreign ctrl	5.00%	5.09%	5.09%	5.54%	5.89%
- Cancon products	same	6.00%	6.00%	6.00%	6.17%
- Foreign products	same	5.00%	5.00%	5.50%	5.86%
Expected impact of program on sales (*)					
- Industry	nil	Nil	nil	+13.15%	+20.6%
- Group under Can. ctrl	x 2.12	x 0.95	x 2.56	x 2.05	x 2.14
- Group under foreign ctrl	-16%	-13.8%	-16.7%	-7.3%	0%
- Products with Canadian content	+41%	+84.3%	x 2.42	x 2.15	x 2.18
Expected impact market shares					
- group under Can. ctrl	+6.1pts%	+5.1pts%	+5.1%	+6.1pts%	+5.9pts%
- Products with Canadian content (**)	+2.3pts%	+2.4pts%	+4.9pts%	+6.9pts%	+6.4pts%

1985-86 BASE / 10-YEAR HORIZON	Scenario A.1	Scenario A.2	Scenario B	Scenario C.1	Scenario C.2
Expected productivity (injection $5 million x 10 years) (***)	nil	nil	nil	$0.5/$1	$0.79/$1
- industry	$2.4/$1	$2/$1	$2.56/$1	$3.19/$1	$3.35/$1
- group under Can. ctrl	$0.92/$1	$1.9/$1	$2.47/$1	$3.6/$1	$3.65/$1
- products with Can. content					

Notes for Table F.1:

(*) (Sales with the SRDP year 10 – Sales without the SRDP year 10) / (Sales without the SRDP year 10 – Sales initial year);

(**) [Market share (%) year 10] - [Initial market share (%)];

(***) [Sales with the SRDP year 10 – Sales without the SRDP year 10] / Total injected funds.

Comparing the different scenarios shows that the hypotheses generate noticeably different results (it also shows the elements of a preliminary economic analysis required in order to set expected results obtainable given available resources). The exercise also shows that the rates of growth and growth differentials required to significantly improve the market positioning of albums with Canadian content and companies under Canadian control were relatively high (as they would be today).

However, the hypothesis that an annual injection of $5 million would allow such objectives to be achieved is clearly an underestimation. The necessary (yet insufficient) condition to meet objectives is to mobilize the required financing to support such growth and competitive profits. The lever effect in public contribution financing of the SRDP could possibly have been more pronounced with more appropriate instruments, but it is not very conceivable that this effect would have been sufficient enough to satisfy the hypotheses and expected results of the most favourable scenarios (type C) in Table F.1.

The guideline exercise presented above is meant to be applied to different objectives with the appropriate indicators (for instance, in terms of the financial consolidation of businesses).

F.2. THE SRDP's RELEVANCY IN THE FACE OF TECHNOLOGICAL CHANGE AND THE GLOBALIZATION OF THE RECORD INDUSTRY

F.2.1. Sales Trends at the World Level

After a period of relative stability and sustained growth, the music industry is now facing important economic and technological changes at the same time as sales -- at the international level -- have tended to stagnate since the middle of the '90s.

Table W, which shows the growth of total sound recording sales around the world from 1981 to 1997, indicates that they rose from $12.3 billion US in 1981 to more than $38.0 billion US in 1997 (an annual average increase of 7.3%). Except for some years, the growth of sound recording sales was more rapid during the first half of the '90s than for the preceding decade. This is in part explained by the introduction of the 'compact' format (CD) towards the end of the '80s and the beginning of the '90s. By adopting the new digital technology as the format of preference, the record industry increased demand for albums and compilations of old catalogue titles as consumers wished to update their collections to the CD format. Over this period, that is, from 1985 to 1995, sales in the record industry grew by 221%, or an annual average of more than 12%.

Before this period, the record industry had known some rather difficult years: from $12.3 billion US in 1981, demand sagged by nearly 9% the following year to reach $11.2 billion US. The years 1984 and 1985 were also 'bad' years for the world record industry (current growth rates of 0% and 2.1% respectively). More recently, the industry has undergone a slight recession with a sales slow-down in 1996 (0.3%) and a pull-back in 1997 (-3.6%).

It is timely to wonder if the introduction of new digital distribution technologies (Internet, MP3) will have the same effect on global demand at the beginning of the decade 2000 as the CD towards the end of the '80s and later.

Table F.2
Global Demand for Sound Recordings
($ millions US)

	1981	1982	1983	1984	1985	1986	1987	1988	1989
Sales	12 300	11 200	12 000	12 000	12 250	14 000	17 000	20 300	21 500
Growth (%)	-	-8.9	7.1	0.0	2.1	14.3	21.4	19.4	5.9
	1990	1991	1992	1993	1994	1995	1996	1997	1981-97
Sales	24 104	27 150	29 199	30 906	35 803	39 374	39 509	38 077	
Growth (%)	12.1	12.6	7.5	5.8	15.8	10.0	0.3	-3.6	210

Source: International Federation of the Phonographic Industry (IFPI), The Recording Industry in Numbers, several years.

F.2.2. Digital Technologies

The digital revolution has already substantially won over the music industry's technology, the way in which music is recorded, packaged, broadcast, distributed and consumed. It is certain that this technology will have strong effects in the future, particularly through its use in the distribution system. In this case, if directions are coming more into focus today than they were only a year or two ago, the repercussions and changes in the organization of the industry are not yet quite clear. This will depend notably on a series of independent and interrelated factors such as government regulation, technological advance, industry standards, consumer preferences and group strategies.

It is certain that all of the sector operators -- record companies, recording artists, authors and composers, distributors, events organizers, music publishers -- are preoccupied by these technological issues, and with some urgency. Productivity may be increased, quality improved, music availability and accessibility augmented, some will be able to/know how to profit from new markets, while other will not be able to adapt and maintain themselves under new market conditions and business practices.

Distribution

The most decisive effect of digital technology on the record and music industry will most certainly be on 'distribution'. Consumers can already, and will be have more and more the opportunity, to buy music files over the electronic media, to store them on their computers or convert them to the digital format of their choice (DAT, CD, CDR, CDRW, DVD, etc...) while still preserving sound quality.

Although the music industry has, for a long time, succeeded in adapting itself through various stages of technological innovation (phonographic recordings, audio cassettes,

multi-track tapes, compact discs and digital audio tapes), the latest digital technology is truly 'revolutionary' in that it carries within it changes in the nature and character of the industry's relationship both to the economy and the consumer. In the near future, it appears inevitable that a large part of the delivery of music products, from record companies down to consumers will be electronic and without physical form. the record companies have become able to deal directly with consumers via the electronic media, distributors and retailers – who also have access to it – finding themselves a bit threatened in their traditional roles, that they will have to reposition.

In this problem set, the majors, as producers, owners of huge rights and titles catalogues, and distributors, hold weighty trumps to play on this racetrack. As the buy-out of Time-Warner by AOL suggests, redemption of these trumps correlates to a favourable position as to access, visibility, promotional capacity and targeted goodwill, notably regarding entry. Even in the context of a niche strategy, it seems clear that the record companies in the independent sector, because of their smaller size, should be able, to take this path, to contemplate groupings among themselves to consolidate their positions (catalogues, promotional ability, entry costs, on-line sales desks), or review and find different arrangements with those distributors best-placed to market-promote. Even so, the acquisition and development of technological ability are unavoidable and the SRDP should be able to respond to these needs to facilitate the changeover considering the size and clienteles in production, broadcasting, and distribution. The record companies must position themselves strategically and pro-actively while preserving the flexibility to adapt to the varied emerging types of distribution.

The business issues touch on, notably:

- **copyright** to ensure that artists, authors, composers, labels are fairly remunerated for music and albums;
- **pirating** to control illegal copies of albums/songs;
- **the traditional role of distributors and retailers** in the demand for electronic distribution of to satisfy the growth albums/pieces of music while remaining loyal and responsible/ supportive vis-à-vis common interests and with respect to the roles that the traditional functions of distribution and retail sales will still be called on to play in the future.

Recording/Production

With the advent of digital technology since the middle of the '80s, CD production costs have decreased strongly. It has become possible for an artist or a group to reserve a studio and put out a high-quality product in a few days. Young artists and music groups have been able to self-produce more easily. On the other hand, this has also permitted young entrepreneurs to create labels and operate profitably at cost with an independent label. These phenomena follow:

- **Demo CDs** — The importance of the CD, as a demo, compared to recording tapes; the CD is not only and end unto itself but also a means;

- **Self-production by the artist** — Growth in the relative number and importance of self-produced CDs; the label is no longer an unavoidable partner in the recording equation. In Canada, the implementing agencies have responded to this trend and thus contributed to serving it. The bottleneck lies with promotion and distribution. Artists or groups found themselves with 500 to 1000 CDs to give out as demos, sell during their shows or sell on consignment with retailers in their areas;

- **Independents/ labels** — Relative to the trend towards self-production, artists and groups have felt more independent vis-à-vis record companies. Now that the possibilities for low-cost promotion and distribution are more open internationally and potentially usable with a modicum of electronic equipment, imagination, 'do-it-yourself' may come to equate with artistic freedom.

F.2.3. Globalization and Integration

The Majors

Since the invention of the recording industry, a large part of the global music industry had been in the hands of a relatively small number of agencies, called the 'majors'. At the end of the '80s, this core of majors was made up only of Ploygram, Sony, EMI, BMG and Warner. Together, these majors controlled 80% of the industry and more than $40 billion US.

With the majors, the recording business, and more globally, the music business is, without any doubt, the most globalized of all the entertainment businesses. As

compared to the film industry, for example, its majors included until recently German, British, Japanese American and Canadian companies. More than national affiliation or music style, the music business is driven by demand and profit. The January 2000 announcement that EMI had been absorbed by Time-Warner (following the same of the Time-Warner by AOL) marks the consolidation of the American pole; nonetheless, the 'global' character of the industry will remain.

Until recently, world supply and demand was absolutely concentrated on the American and British 'megastars' who sold well first on the American market and exported well worldwide. However, the most recent data suggests that this model is no longer assigned and dominant. In fact, the US market has not known as rapid growth as other important markets. While the United States represented approximately 50% of the world market in 1987, today it represents less than a third. Many industry observers even consider that, some years from now, the American market will make up no more than 20% of total sales.

The reason for this major displacement of geographic sales distribution is two-fold:

- after a decade of growth of more than 10% (consumers trading in their vinyl records and sound cassettes for CDs), the US market has recently realigned to much lower growth rates; after a growth of 14% in 1994, the US market has recorded 3 consecutive years of pull-back;

- Asian and Latin American markets felt rapid during the surge in their economies for a large part of the '90s.

The consequences of this geographic displacement of global demand have been important with respect to the way in which the majors have operated over the last few years. The majors, habitually, raked in millions of dollars on a handful of megastars whose worldwide sales were foreseen. At the same time, this strategy carries the high risks tied to large investments in expectation that the success or the 'hits' return high earnings, enough to cover the losses incurred by setbacks and ensure the company good returns on its investment.

For quite some time, the hits of artists like Michael Jackson, Madonna, U2 and others have validated this type of business strategy. However, the softening of the American market has combined with other factors to lead to other more diversified strategies that are less focused on megastars, notably:

- the cost spiral by labels to "sign up" world popular "megastars";

- the growing demand of "peripheral" markets for national artists or same-language artists who better reflect their mentality, concerns and desires; and at the same time for musical expression that sounds less affected by uniform music sifting;

- fragmentation of the music 'mainstream' into a multitude of different styles.

Vertical Integration and Concentration

When distribution channels are easily interchangeable, those who decide on content are in a favourable position with respect to the market power (as at the beginning of the '90s). However, when this power is dispersed among the various segments of the value-added chain (as in the case of digital technology), the complementarity and synergy between the various sectors encourage the control dynamics of the whole of the chain. This has proven true of the entertainment giants and is now illustrated by their reconciliation with, and integration into, the big Internet groups(gateways, electronic information transfer, surfing).

All types of specialized cultural industry (film, music, radio, publishing...) have become larger and more diversified business components as giant entertainment groups (Time-Warner, Walt Disney, Bertelsman, Viacom, News Corp., Seagram's, Sony) and have reconciled with the world of cablevision, telephone and Internet. Seven record majors have dwindled to 4 (Polygram/Universal, Warner/EMI, Sony Music, BMG). Until recently, EMI was the only record major not affiliated with an entertainment giant. This has become a thing of the past with its absorption by Time-Warner (and the AOL takeover).

The dynamic of concentration at the record level is liable to transform itself into an increasingly concentrated promotional effort on a smaller number of new releases by the remaining groups, with media tie-ins to the entertainment/communications groups included. Conditions and challenges for the independent sector will find themselves taking different forms, certainly under serious threats and limitations, but also with the opportunity to be players in an area full of opportunities for operation, organizational arrangement and tailoring/satisfaction of a wide demand.

F.2.4. Global Changes and the SRDP

The SRDP, as an industrial recording development support program, was set up to ensure Canadians greater access to music, in all its diversity, and particularly as a mode of expression for an by Canadians. Development and reinforcement of the independent sector of the industry, Canadian-owned, were seen as the condition and route necessary

to attain this aim and the SRDP became its instrument.

The SRDP's general objectives remain as relevant, if not moreso, today given the changes in the context of the global sector, as much on the level of technology as the globalization/integration presented here.

On the other hand, these changes lead to a serious rethinking of the approach, as well as the fields of activity and the sighted targets. The products/projects approach does not allow for an adequate response to the challenges raised by adapting and developing technological, strategic and mechanical abilities. However, training and acquisition of new skills, developing new forms and platforms for cooperation and setting up groups, creating mergers all become needs that the SRDP must be able to support and encourage in a pro-active fashion, to redress the constraints faced by businesses in the independent sector. Up to the present, only the 'Business Development' program unit opened a door in this direction, but it remained weak and very little used for this. A punctual products/activities/projects approach is inadequate, adapting to change justifying on the micro and meso segments an approach base on company, strategic and business plans, and developing abilities.

F.3. SECTOR-BASED POLICY AND ORIENTATION FRAMEWORK OF THE SRDP

The retrospective evaluation found that:

(i) the definition framework of the components and the management responsibilities of the components, notably concerning the contribution agreements between Canadian Heritage and FMC, do not express sufficiently clear orientations on behalf of the decision-making public;

- it integrates a multiplicity of aims and interests expressed generally according to a very wide vocation (references to the "sector" and "industry", listing of different categories of agents, consensus and general sector-based collaboration, types of music, regional dimension, etc.) without sufficiently emphasizing the intentions and channels which express priorities;

(ii) FMC managed its components fairly in order to satisfy its different general orientations and interests of Canadian Heritage, without allowing the aspects of "development" and sector-based "reinforcement/structuring" to dominate.

Thus, the study leads to the evaluation that the public intentions were not given enough expression in the formulation of the SRDP and its management framework. Canadian Heritage should clearly state the orientations which convey the public choices and priorities that it finds necessary in order to satisfy the objectives reinforcing the independent sector and improving Canadians' access to music by Canadian artists.

It will be necessary to define a performance grid for the SRDP, as an operations as well as a management and follow-up mechanism, with measurable indicators and clearly specified results. To do this, it is necessary for Canadian Heritage to put in place an information system to follow relevant sectoral indicators and gather data on the program results and activities in an appropriate format that allow for drawing the relationship between the assistance profile, the beneficiaries' results and sector development (impact studies)[41].

[41] For information on this topic, refer to Sections D.5 and E.4 of the Final Report (also, the document entitled "Cadrage analytique et plan de collecte, November 1996" and the various papers on data collection submitted to Canadian Heritage during this study contain useful examples for developing appropriately adapted tools).

F.4. MAIN LINES OF SUPPORT

Étude Économique Conseil believes that the SRDP should implement an explicit strategy which is organized according to the following main lines:

(i) **support for the development and consolidation of the independent sector so that Canada will have a sufficiently large group of solid and dynamic record companies**

- the evaluation study has shown in its analysis of the evolution of sector-based indicators the role of companies in the improvement of the independent sector's positioning; due to their capacities and scale, these companies are the spearhead of competitive improvement;

- however, considering the volume of the public contribution, its limited lever effect on the mobilization of private resources, and the relatively widened distribution of assistance, the development potential of this segment was never sufficiently realized;

- the development of capacities in production, marketing, and management (human resources, technologies, financial base) requires the implementation of more stable forms of assistance (i.e. more than yearly projects) which are not exclusively centred on support for activities related to the production and marketing of a specific album; it requires a support approach with a more structural vocation, encompassing the development of companies;

- these companies must particularly be able to consolidate their resource base through mutually profitable arrangements with artists;

(ii) **support for the establishment of conditions favourable to expressing entrepreneurial and management capacities within the base of producers and record companies which are not leaders in the independent sector;**

- the SRDP must contribute to finding companies with the potential to "graduate" in the different types of music and markets;

- the forms of support could remain along the same lines as those for the support of production and marketing activities used until now;

- therefore, it is necessary to ensure that these companies have recourse to and a greater desire for training (according to the vocation of the "business development" component which was not followed sufficiently);

- also, the need for collective information and promotion instruments (notably with Internet) seems appropriate for this segment of the independent sector;

(iii) **the support for the establishment of more favourable conditions for the emergence and development of Canadian creative talents**

- this main line is addressed to the creative pool of Canadian artists and the improvement of conditions for career development;

- these are related to the orientations followed and the different aspects and construction components of their revenue; they are notably concerned with the role of artists' managers and music publishers.

To apply these general lines coherently, the SRDP should more adequately follow and develop collective support with a structuring impact, which involves:

(iv) **the development and communication of adequate sector-based information** (infrastructure and systems);

(v) **the consolidation of the support infrastructure formed by the main professional associations; and**

(vi) **events of national and regional reach.**

F.5. ORGANIZATIONAL AND MANAGEMENT FRAMEWORK

The formulation of clear intentions and orientations by Canadian Heritage, and their expression in the contribution agreements, greatly relieves the weaknesses of support that were found. However, the organizational and management framework also raises particular questions:

(i) through its FMC component, this framework expresses Canadian Heritage's will to ensure a wide collaboration between the different categories of contributors within the sector; however, it is not necessarily pertinent for such a collaboration to manifest itself to its full extent (in terms of representation and of subjects treated) at only one level with one administrative council;

(ii) in this respect, it would be suitable to conceive an organizational model which allows dialogue between the different categories of contributors, through an "external" consultation group, while adapting an organizational management framework to delegate responsibilities according to the objectives which concern the different categories of contributors more directly; this can be applied through an internal structure which is more hierarchic (implementation of decision-making committees according to the revised components), through different management entities according to the major components;

(iii) the approach and the main lines of orientation suggested call for the implementation and effective management of programs and instruments which are partly modified and new and which are not part of the past experience of FACTOR and MusicAction. This raises the question of their capacities to absorb and adapt; certain components/instruments could be managed by a more experienced structure. However, FACTOR's and MusicAction's ability to reach targeted clientele allows them to keep their wide responsibilities. It would therefore be necessary to manage and support the adaptations required through complementary training of personnel, adding specialized personnel, and information and management systems.

At another level, EEC Canada feels that:

(iv) the "distribution of specialized music" component should be reallocated to Canadian Heritage and at the same time complementarity with the "production" component managed by the Canada Council should be strengthened.

(v) the "support for the development of federal policies" component should be designed as a medium-term global research program with priorities; it would also continue to call upon the services of professional associations, but more for recurring information products and the specialized infrastructure of sector-based information services.

As mentioned above in F.2, obtaining tangible and lasting impacts requires a significant increase in investments and financing of companies in the context of adapting to changes in technology and the organization and functioning of businesses. To assess the level of public financing necessary requires an estimate of the total financing necessary and the expected lever effect of public contribution on financing and private investments, according to the instruments used. The total financing necessary depends on the cost of activities at the level of companies and the base required to obtain expected results.

Mobilizing a significantly bigger SRDP budget should be part of a gradual process, considering the process of absorption and the conditions which accompany implementing a more dynamic, proactive, and ultimately more successful productivity framework, along with an appropriate follow-up system.

ANNEX

SRDP Evaluation
Industry Consultation

Organizations and Individuals Interviewed[1]

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1 This annex presents a list of all the organizations as well as the individuals that were interviewed for the purpose of the SRDP Evaluation study. The list of firms which provided financial and operational data for the chapter on risk (section E.1.3) is not included because the level of data tabulation may reveal confidential firm-level information.

British Columbia

Festival Distribution	Jack Schuller
Songlines Recordings	Tony Reif
Nettwerk Production	Ric Arboit
Mint Records	Randy Iwata
Gun Runner	Cameron Noyes
Publicist	Rob Viereck
Zolty Cracker	Gilles Zolty
Itch	Mark Critchley
PMIA	Ellie O'Day
Mo'Funk Productions	Luke McKeehan
Hissy Fit	Giselle Grignet

Prairies

Stoney Plain	Holger Peterson
Oak Street Entertainment	Gilles Paquin
The Wyrd Sisters	Nancy Reinhold
ARIA	Maryanne Gibson
MARIA	Gaylene Dempsey
The Sunshine Group	Danny Schur
Royalty Records	Harlan Smith
Superb Records	Doug Workenson
Sweetgrass Records	Darlene Whitecalf

Ontario

FACTOR	Heather Ostertag
Canada Council	Micheline Lesage / Garry Cristall
Attic Records	Al Mair
Anthem Entertainment	Peggi Cecconi
Beat Factory Music	Ivan Berry
Alma Records	Peter Cardinali
Sonic Unyon	Tim Potocic
Loggerhead	Paul Church
Sam-the-Records-Man	Jason Sniderman
Page Music Distribution	Victor Page
Outside Music	
Alert Records	Phyllis Brodeur
CIRPA	Brian Chater

Quebec

MusicAction	Lise Aubut
Les Disques Audiogramme	Michel Bélanger
Les Disques Analekta	Mario Labbé
GSI Musique	
Tacca Musique	
Disques Tox	Michel Gendron
Les Disques Atma	Michel Laverdière
Indica Records	Franz Mariano
Distribution Select	Rosaire Archambault
SOPREF	Jean Robert Bisaillon
ADISQ	Robert Pilon
SPACQ	

Maritimes

Turtlemusic	Sheri Jones
Giraffe	Pierre Fortier
Tidemark Distribution	Chip Sutherland